GOVERNMENT PAYMENTS: POTENTIAL FOR FRAUD

HEARING

BEFORE THE

SUBCOMMITTEE ON
ENERGY, NUCLEAR PROLIFERATION, AND
GOVERNMENT PROCESSES

OF THE

COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

DECEMBER 13, 1982

Printed for the use of the Committee on Governmental Affairs

U.S. GOVERNMENT PRINTING OFFICE
14-053 O WASHINGTON : 1983

S401-26

COMMITTEE ON GOVERNMENTAL AFFAIRS

WILLIAM V. ROTH, JR., Delaware, *Chairman*

CHARLES H. PERCY, Illinois
TED STEVENS, Alaska
CHARLES McC. MATHIAS, JR., Maryland
JOHN C. DANFORTH, Missouri
WILLIAM S. COHEN, Maine
DAVID DURENBERGER, Minnesota
MACK MATTINGLY, Georgia
WARREN B. RUDMAN, New Hampshire
HARRISON "JACK" SCHMITT, New Mexico

THOMAS F. EAGLETON, Missouri
HENRY M. JACKSON, Washington
LAWTON CHILES, Florida
SAM NUNN, Georgia
JOHN GLENN, Ohio
JIM SASSER, Tennessee
DAVID PRYOR, Arkansas
CARL LEVIN, Michigan

JOAN M. MCENTEE, *Staff Director*
IRA S. SHAPIRO, *Minority Staff Director and Chief Counsel*

SUBCOMMITTEE ON ENERGY, NUCLEAR PROLIFERATION, AND GOVERNMENT PROCESSES

CHARLES H. PERCY, Illinois, *Chairman*

DAVID DURENBERGER, Minnesota
WILLIAM S. COHEN, Maine
MACK MATTINGLY, Georgia

JOHN GLENN, Ohio
HENRY M. JACKSON, Washington
CARL LEVIN, Michigan

WILLIAM A. STRAUSS, *Chief Counsel and Staff Director*
ALAN MERTZ, *Professional Staff Member*
LEONARD WEISS, *Minority Staff Director*
KATHRYN H. FROELICH, *Chief Clerk*

CONTENTS

Page

Opening statements:
  Senator Percy 1
  Senator Cohen 35

WITNESSES

Monday, December 13, 1982

Charles A. Bowsher, Comptroller General of the United States, accompanied by John Cronin, Senior Group Director, Accounting and Financial Management Division, and John Simonette, Associate Director, Accounting and Financial Management Division 3
Clyde G. McShan II, Director, National Finance Center, Department of Agriculture, New Orleans, La., accompanied by Dean Crowther, Director, Office of Administrative Systems, USDA 42
William M. Gregg, Acting Commissioner of the Public Debt, Department of the Treasury 49
James W. Morrison, Jr., Associate Director for Compensation, Office of Personnel Management, accompanied by Claudia Cooley, Deputy Associate Director for Compensation, OPM 53

Alphabetical List of Witnesses

Bowsher, Charles A.:
  Testimony 3
  Charts 5
Cooley, Claudia: Testimony 53
Cronin, John: Testimony 3
Crowther, Dean: Testimony 42
Gregg, William M.: Testimony 49
McShan, Clyde G., II:
  Testimony 42
  Prepared statement 48
Morrison, James W., Jr.:
  Testimony 53
  Prepared statement 57
Simonette, John: Testimony 3

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Checks and vouchers from the General Accounting Office submitted by Senator Percy 13
"Fraud, Laxity in Government Costs $150 Million," article by James Coates, Chicago Tribune, December 12, 1982 39
Cover summary and digest of GAO report, "The Bureau of Public Debt Should Better Control Savings Bond Sales and Redemptions" 61
Cover summary and digest of GAO report, "Action Needed to Reduce, Account for, and Collect Substantial Overpayments to Federal Retirees" 65
Response of the Office of Personnel Management to the GAO report, "Action Needed to Reduce, Account for, and Collect Substantial Overpayments to Federal Retirees" 69
"Improvements Needed in Internal Controls at the National Finance Center," GAO report 77

GOVERNMENT PAYMENTS: POTENTIAL FOR FRAUD

MONDAY, DECEMBER 13, 1982

U.S. SENATE,
SUBCOMMITTEE ON ENERGY, NUCLEAR
PROLIFERATION, AND GOVERNMENT PROCESSES,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, D.C.

The subcommittee met at 10 a.m., in room 3302, Dirksen Senate Office Building, Hon. Charles H. Percy (chairman of the subcommittee) presiding.

Present: Senators Percy and Cohen.

OPENING STATEMENT OF SENATOR PERCY

Senator PERCY. I would like to say in opening this hearing that this is now the 16th year that I have devoted my attention to introducing business-like practices to the Federal Government. There has been no better partner in this endeavor through the years than the GAO. They have been extraordinarily professional, helpful, and have met the highest standards of efficiency and effectiveness.

As we begin this hearing, I think this is an example of the ingenuity of the GAO, how it is the watchdog, not just with Congress, but for the taxpayer as well. When we find areas of weakness, it is a real service to the Federal Government and to everyone that works for it as well as the taxpayer when we focus in on these weaknesses.

This hearing of the Subcommittee on Energy, Nuclear Proliferation, and Government Processes will call public attention to one of the most unusual Government waste and fraud issues that I have seen in the past 16 years. It is often said that the General Accounting Office is one of the most cost effective organizations in the Government. The GAO has been in the forefront in detecting ways in which the Government is vulnerable to waste and fraud, and has offered recommendations for preventing the loss of taxpayer dollars.

Today's hearing will focus on the weakness of controls over how the Government pays its bill and manages some of its accounting programs, leaving the door wide open for fraud and abuse.

Certainly it is one of those areas that every family that keeps a budget and has a checking account can understand.

The GAO has issued more than 57 reports on this matter. I have all of them right here—they are voluminous.[1] These reports have cited time after time weak internal controls in Federal agencies. Too many of these money-saving ideas end up on agency shelves gathering dust. One of the things that we have tried to do on this committee is make absolutely certain that once GAO spends the time on a report, we really go through it. We cull out of the report what we can and then analyze what we can do about the problems identified.

---

[1] See pp. 61–77 for three of the GAO reports. The balance may be found in the files of the subcommittee.

Why is it that so many times the ideas that come out just gather dust? Sometimes when people glance at a new GAO report dealing with such issues as accounting, internal controls, and finance management, eyes begin to roll, mouths yawn, and people just drift to sleep. We are going to fix that today. I don't think anyone is going to be able to sleep when they hear some of the things that have gone on. We are going to bring a Government "scam" to life in the hearing room this morning and it should wake up even the soundest sleepers.

The U.S. Treasury check that I have right here in my hand was processed and paid promptly by the Department back in July of this year. It is made out to G. A. Olendorf, Inc. The check was issued 20 days after the bill for services was sent to the Department of Agriculture for payment. The check was subsequently deposited.

Nothing seems unusual about this transaction—nothing, that is, except for one thing: the Government didn't owe G. A. Olendorf a single cent. In fact, G. A. Olendorf, which has the initials "G.A.O.," doesn't even exist. It was created by the GAO to test weaknesses in the USDA payment system.

The test done at the USDA involved checks for under $200. The small amount involved does not mean that this is just a nickle and dime problem. Who knows what would have happened if the bills had been for $200,000? I asked the subcommittee staff to look into this problem at other agencies and they found that some are vulnerable to far more serious problems, potentially in the tens of millions of dollars. Some of these accounting flaws are so serious, and are taking so long to correct, that I will not discuss them in this hearing. However, I have been assured that these problems are being given top priority by the agencies in question.

I talked this weekend with my friend, John Block, the Secretary of Agriculture, who used to be the secretary of agriculture in Illinois. He is very concerned about this situation, and is right on top of it. He is well aware of what his Department is doing to correct this problem. I hope this will be a good example to other departments as to what they can do about tightening up their operations.

There is reason to be optimistic that controls are going to tighten up. The agencies represented at today's hearing have demonstrated a great willingness to fix the problems identified by GAO, and some have already done so. Also the recent passage of Senator Eagleton's Federal Manager's Financial Integrity Act will make sure that agencies set up accounting systems with stronger internal controls.

My No. 1 priority as a member of this committee is to continue to impress on Federal agencies the need to run the business end of Government like a business.

When I was in industry if somebody sent us a phony bill, I can't imagine we would have paid it. My first vice president, financial comptroller, was Harold Janene. I don't think anything ever got by Harold Janene and his accounting department. I couldn't imagine that he would not have had tight controls to pick up this kind of a situation. I couldn't imagine one check being processed with phony signatures on it and getting through, much less getting through the same agency or the department he might direct.

The taxpayers should expect no less from the Federal Government than they have from the private sector. The procedures are the same. In fact it ought to be even tighter in the Federal Government.

I welcome our witnesses here this morning. I am especially pleased to see Charles Bowsher, Comptroller General of the United States. Your appearance here is a sure sign of GAO's commitment to rectifying this problem. GAO's work is absolutely vital in the area of reducing waste and fraud in Government. We welcome your testimony this morning.

TESTIMONY OF CHARLES A. BOWSHER, COMPTROLLER GENERAL OF THE UNITED STATES, ACCOMPANIED BY JOHN CRONIN, SENIOR GROUP DIRECTOR, ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION, AND JOHN SIMONETTE, ASSOCIATE DIRECTOR, ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION

Mr. BOWSHER. Thank you very much, Mr. Chairman.

We are pleased to participate in your oversight hearings on the need to improve internal control systems in the Federal Government. These deficiencies may be costing taxpayers hundreds of millions of dollars annually.

More than ever before, citizens and public officials are asking questions about financial management and about the adequacy of financial control over governmental operations. With increasing costs of Government operations and the national debt over $1 trillion, the public has a right to be concerned about how efficiently Government operations are being carried out.

Federal officials can restore the public's confidence in Government operations by improving the Government's financial management systems, including budgeting, accounting and reporting, and internal controls. Reliable internal control systems should be at the very core of management's effort to achieve or maintain a high level of accountability and confidence in Government. We believe internal control systems—properly conceived, soundly based, and effectively monitored—are essential for achieving good accountability.

But many agencies' internal control systems are not the result of systematic planning. They are the products of changes made over the years to deal with specific financial crises. Many of these changes have not been made in a coordinated manner. Even in cases where systems have been planned, we find too often that agencies have either allowed them to become outdated or have changed parts of them without considering how this change affects the entire system.

Our audit efforts in the past few years have disclosed numerous instances where Government agencies are operating internal systems susceptible to fraud, waste, and abuse. Our work has indicated that most fraud, waste, and abuse occur because internal controls are either not in place or are not followed. Weak internal control systems often provide opportunities for financial loss, and some employees take advantage of such opportunities. About 2 months ago, an employee of a small Federal agency pled guilty to defrauding the Government of over $500,000, simply by having checks issued to himself.

Fraudulent acts are occurring annually in the absence of effective internal controls. In a GAO report released last year, we cited that Federal agencies had experienced thousands of cases of known fraud within 2½ years. Two-thirds of these cases involved monetary losses. We have estimated that between $150 and $220 million was lost in this 2½-year period. Although it is important to continue to identify such cases, management's primary concern should be to construct systems of internal control that will prevent, or at least decrease, the likelihood of fraud.

Effective internal controls have long been recognized as an essential part of a Federal agency's operation. These systems consist of all measures used by agencies to safeguard resources against fraud, waste, and abuse; insure accurate and reliable accounting and operating data; encourage compliance with applicable policies and laws; and promote efficiency and economy in operations.

GAO evaluates agencies' internal controls in two ways; one, we review, on a limited basis, operating and administrative controls at selected agencies' field offices; and two, we review on a more comprehensive basis, agencies' central accounting systems and major subsystems.

First, I'd like to discuss our limited reviews of agencies' operating and administrative controls at agencies' field offices. These reviews have uncovered many internal control deficiencies over the years. In 1980, we reported to the Congress and agency heads a pattern of deficiencies in all major aspects of accounting—recording receivables and obligations, collecting debts, and making disbursements. We identified these deficiencies from our work at all agencies. Although we sent the report to all agency heads to provide them the opportunity to identify and correct similar weaknesses, our current work at nine additional agencies has disclosed the same pattern of deficiencies. We have provided this subcommittee with charts summarizing the types of problems found at the 245 field offices that we reviewed in 20 Federal agencies.

Senator **Percy**. Could we just interrupt at this point to ask if you could explain the meaning of these charts, how much money has been lost due to these problems and how many of these problems have been corrected?

Mr. **Bowsher**. We have broken our findings down on these charts into the areas of accounts receivable, collections, disbursements, obligations, and imprest funds. The total number of agency accounting stations we looked at was 245 and the total number of weaknesses we found was 1,310. Some of these have been corrected. Others are being worked on. We are not really sure at this point on the exact number that have been corrected.

[The charts referred to above follow:]

CONSOLIDATED SUMMARY OF GAO'S OBSERVATIONS AT

157 FEDERAL DEPARTMENT AND AGENCY FISCAL OFFICES

	DEPARTMENT OR AGENCY											
	Justice (DEA)	Transportation (Coast Guard)	U.S. Army (Europe)	U.S. Air Force (MAC)	State Department (Europe)	HEW (Health Services Admin.)	Labor (ETA) (OASAM)	EPA	U.S. Pacific Fleet	HEW (FAA)	HUD	TOTAL FISCAL OFFICES
NUMBER OF OFFICES EXAMINED	14	11	7	12	8	19	20	13	21	19	12	157
CONTROL WEAKNESSES NOTED												
ACCOUNTS RECEIVABLE AND COLLECTIONS:												
Procedures to bill and record receivables not followed				2		5	12	10		1		30
Prompt and timely action not taken on delinquent receivables					4	5	5		4			18
Receivable aging schedules not prepared properly		5				12		11				28
Collections not recorded or logged in by mail clerk	10	5	7	1		9	12	10		9	3	66
Receipt documents not used or controlled	3	1		2	5	14	10	12			3	50
Lack of separation of duties				1	8	15	3	5	8		3	43
Collections not safeguarded as required						5	7	2	5	5	3	27
Procedures to deposit collections not followed	10			2	5	10	11	9	7	14	5	73
Travel advances not controlled or reviewed	3		1		5		4	3	5	4	7	32
(Subtotals)	(26)	(11)	(8)	(8)	(27)	(75)	(64)	(62)	(29)	(33)	(24)	(367)
DISBURSEMENTS:												
Invoices not paid in accordance with due dates or cash discounts			7			10		8				25
Lost discounts not explained in writing	6	3		2	2	12	5	10		9	6	55
Vouchers and invoices are not adequately supported or reviewed						2	4	5	2	9	1	23
Disbursements made in excess of approved limit or authorization					8							8
GTR's not safeguarded or properly accounted for							5	4				9
(Subtotals)	(6)	(3)	(7)	(2)	(10)	(24)	(14)	(27)	(2)	(18)	(7)	(120)
OBLIGATIONS:												
Estimates of obligations not adequately supported	6	1	2	10		11	5	11		4	5	55
Obligations not recorded or reviewed properly						3	4	4		2		13
Funds not certified before obligations incurred					5							5
(Subtotals)	(6)	(1)	(2)	(10)	(5)	(14)	(9)	(15)	(0)	(6)	(5)	(73)
IMPREST FUNDS:												
Unannounced audits and cash verifications not performed					9	7	4	4		12	4	40
Imprest funds used improperly						2		4			4	10
Funds commingled or shared with other cashiers		1				7	3	3		9	8	31
Fund procedures not reviewed or followed by cashiers				1	8	10		3	5		2	29
Safe combinations not changed annually or not accessible		3	2		6	14	3	8		14	12	62
Fund levels exceed their required need				3	3	1		6	14			27
Duties of cashiers not separated	8											8
Alternate cashiers not appointed		4								1		5
(Subtotals)	(8)	(8)	(2)	(4)	(26)	(41)	(10)	(28)	(19)	(36)	(30)	(212)
GRAND TOTALS	(46)	(23)	(19)	(24)	(68)	(154)	(97)	(132)	(50)	(93)	(66)	(772)

AGENCY INTERNAL CONTROL WEAKNESSES

ACCOUNTS RECEIVABLE AND COLLECTIONS

CONTROL WEAKNESSES	DEPT. OF STATE	PEACE CORPS	AGENCY FOR INTERNATIONAL DEVELOPMENT	DEPT. OF ENERGY	FEDERAL HIGHWAY ADMIN.	NATIONAL PARK SERVICE	FEDERAL EMERGENCY MANAGEMENT AGENCY	FOREST SERVICE	VETERANS ADMIN.	TOTAL
(NUMBER OF FISCAL OFFICES REVIEWED)	(14)	(3)	(7)	(10)	(18)	(9)	(1)	(12)	(14)	(88)
RECORDED OR BILLED IMPROPERLY				6	13	8	1		7	35
INADEQUATE ACTION ON DELINQUENT ACCOUNTS	8	1	4				1	1	6	21
AGING SCHEDULES NOT PREPARED				8			1		7	16
COLLECTIONS NOT PROPERLY RECORDED	7		4		7	3	1	7	14	43
RECEIPTS NOT CONTROLLED OR USED	5	1	4	7						17
INADEQUATE SEPARATION OF DUTIES	8		3	6	6	6	1	11	14	55
COLLECTIONS NOT PROPERLY SAFEGUARDED	6			6	8		1	6	3	30
COLLECTIONS NOT PROMPTLY DEPOSITED	8	1	3	5	8	8	1	5	8	47
TRAVEL ADVANCES NOT CONTROLLED				5	6	8	1			20
TOTALS	42	3	18	43	48	33	8	30	59	284

AGENCY INTERNAL CONTROL WEAKNESSES

IMPREST FUNDS

CONTROL WEAKNESSES	DEPT. OF STATE	PEACE CORPS	AGENCY FOR INTERNATIONAL DEVELOPMENT	DEPT. OF ENERGY	FEDERAL HIGHWAY ADMIN.	NATIONAL PARK SERVICE	FEDERAL EMERGENCY MANAGEMENT AGENCY	FOREST SERVICE	VETERANS ADMIN.	TOTAL
(NUMBER OF FISCAL OFFICES REVIEWED)	(14)	(3)	(7)	(10)	(18)	(9)	(1)	(12)	(14)	(88)
AUDITS & CASH VERIFICATIONS NOT PERFORMED	10	3	4	3	5	5	1	4	7	42
FUNDS USED IMPROPERLY	5			2						7
FUNDS COMINGLED WITH OTHER CASHIERS								2		2
REQUIRED PROCEDURES NOT FOLLOWED	2	1	3			6	1	5		18
SAFE COMBINATIONS NOT PROTECTED			3		4	3		6		16
FUND LEVELS EXCEED NEEDS		1			1		1	6	1	10
CASHIERS DUTIES NOT SEPARATED					1	3		6	7	17
ALTERNATE CASHIERS NOT APPOINTED								2	2	4
FUNDS NOT PROPERLY SAFEGUARDED	10		3		1			1		15
ADVANCES NOT PROMPTLY LIQUIDATED	8						1			9
TOTAL	35	5	13	5	12	17	4	32	17	140

AGENCY INTERNAL CONTROL WEAKNESSES

DISBURSEMENTS AND OBLIGATIONS

CONTROL WEAKNESSES	DEPT. OF ENERGY	FEDERAL HIGHWAY ADMIN.	NATIONAL PARK SERVICE	FEDERAL EMERGENCY MANAGEMENT AGENCY	FOREST SERVICE	VETERANS ADMIN.	TOTAL
(NUMBER OF FISCAL OFFICES REVIEWED)	(10)	(18)	(9)	(1)	(12)	(14)	(64)
DISBURSEMENTS							
PAYMENTS NOT TIMED FOR DUE DATES OR DISCOUNTS		10	7	1		10	28
REASONS FOR LOST DISCOUNTS NOT DOCUMENTED		5	5	1		1	12
INADEQUATE DOCUMENTATION OR REVIEW	4	12		1	2	6	25
GOVERNMENT TRANSPORTATION REQUESTS NOT CONTROLLED	3	4		1	9	14	31
TOTAL	7	31	12	4	11	31	96
OBLIGATIONS							
ESTIMATED AMOUNTS NOT ADEQUATELY DOCUMENTED		1		1		7	9
OBLIGATIONS NOT PROPERLY RECORDED OR REVIEWED	2	2		1		1	6
FUND AVAILABILITY NOT DETERMINED	1	1		1			3
TOTAL	3	4		3		8	18

Senator **Percy**. Thank you.

Mr. **Bowsher**. The second way we review internal controls, which involves a more comprehensive review of agencies' accounting systems and subsystems, has also disclosed deficiencies. We found problems with agencies' controls over the receipt and disbursement of money as well as their administrative controls to safeguard resources and promote adherence to policies and laws.

A major problem we frequently find is that many Federal agencies are operating outdated, poorly designed accounting systems. To illustrate, our September 1982 report on the Bureau of Indian Affairs' system pointed out that personnel were not following procedures, and automated features were confusing and overly complicated. Because of these problems, we concluded that the Bureau had lost accountability for hundreds of millions of dollars of grant, contract, and trust funds made available to improve the livelihood of Indian people.

Within the Bureau of Public Debt's central accounting system, an essentially manual subsystem has been used to process principal and interest payments for outstanding Treasury bills serviced by the Bureau rather than by banks. In reporting on the subsystem's problems, we noted a series of design and internal control deficiencies providing opportunities for overpayments. The subsystem also had inadequate procedures to insure that all overpayments are detected.

The subsystem's primary controls were designed to identify overpayments after they occur—instead of before. Even those procedures for identifying overpayments were deficient. Within a 2-year period, the Bureau identified $15.6 million in overpayments which could have been prevented by a better designed system.

We also found deficient internal controls over such highly vulnerable areas as bond stock and negotiable checks. As an example, the Department of the Treasury has authority to issue replacement checks after receiving claims filed for loss, theft, or nonreceipt of original checks. But it devised no appropriate procedures to handle duplicate payments when both an original and replacement check were cashed. Instead, it simply established an account receivable on its books when the responsible administrative agency did not provide funds for the replacement check. Because appropriate action was not taken to recover the receivables, they continued to accumulate to more than $100 million at the end of fiscal 1982.

We found that the Bureau of Public Debt has a weak system of internal control over unissued bond stock with a face value of several billion dollars, and poor procedures for handling proceeds from the sale of bonds by 44,000 agents. The control problems have contributed to an undetermined amount of bond stock shortages that could eventually result in some monetary losses. Some shortages are reported to be related to inadvertent destruction of bond stocks, and the Treasury will suffer no monetary loss and other unexplained losses.

Controls over remittance of bond proceeds were also found lacking. We are recommending a number of improvements to provide better controls over: One, the issuance of blank stock; two, inventories and possession of agents; and, three, remittance of bond sale proceeds.

Unfortunately in the response that they sent to us the Treasury Department disagrees with our findings because it believes that actual monetary losses have been too small to justify extensive internal controls.

I might point out, Mr. Chairman, that we are really talking about basic controls here and not elaborate controls.

Some Federal agencies operate systems where the risk of erroneous payments is extremely high. For example, the Office of Personnel Management's system, which handles payments to retired Federal employees, overpaid about $98 million during a 3-year period ending in September 1980. Although OPM has recovered a substantial portion of these overpayments, it might have avoided some of the overpayments if better controls had been used to prevent dual payments and promptly identify deceased beneficiaries.

Not all of the major problems we find are caused by outdated systems. We found that the Department of Agriculture's National Finance Center, which consolidated their accounting functions, did not have adequate controls to insure bills are paid on time; thus the Federal Government incurred unnecessary interests costs. We also noted a control problem in one of its major subsystems which disburses more than $500 million annually.

The subsystem had ineffective procedures for verifying vouchers submitted for payment. To illustrate the subsystem's high risk for fraudulent payments, Agriculture's top officials agreed with our plan to submit 10 bogus payment vouchers. The vouchers were approved for processing, and checks were mailed to the fictitious individuals and companies we created. We then returned the checks to the finance center officials.

While we generally support agency efforts to consolidate accounting operations because they lower costs, it is important that agencies have strong internal financial controls to avoid fraud, waste, and abuse.

As my testimony highlights, we are a long way from having agencies operate effective internal control systems in the Federal Government. However, the Financial Integrity Act, which the President signed in September, is a most important first step in putting the Federal Government's house in order. It was certainly farsighted of the Senate Governmental Affairs and House Government Operations Committees to recognize the need for this legislation, which was also responsive to the recommendations contained in our 1980 internal control report mentioned earlier.

As one of our major responsibilities under the act, we will soon publish internal control standards to guide the agencies in establishing and maintaining good systems. Also, OMB is about to issue guidelines to heads of agencies to use in evaluating their internal control systems. GAO and OMB have been working together on these efforts. In addition we believe that the inspector general community will have a very important role under this new legislation. We will be working closely with them to help insure that agencies develop and maintain good systems of internal control.

As you know, the act requires agencies to annually report the state of their internal control systems to the Congress and the President, including their plans to correct internal control weakenesses. We intend to review the agencies' reports and plans and keep this subcommittee and the Congress advised of our findings. It is important for all of us to keep in mind, Mr. Chairman, that developing good plans is one thing, but carry them out successfully will take money, skilled people, and, most importantly, a sustained commitment by both the executive branch and the Congress to sound financial management.

This concludes my testimony, Mr. Chairman. My associates and I will be happy to answer any questions.

Senator **PERCY**. Thank you very much indeed, Mr. Bowsher.

I am delighted to have Senator Cohen join us. He has also been very active in eliminating waste and abuse in Government.

I would like to ask you, first, about the statement you made in your testimony that many of the Federal agencies are operating outdated and poorly designed accounting systems.

What is the underlying reason why professional accountants running those departments are not abreast of modern techniques?

Is it that they cannot get money for new equipment?

Is it that they cannot lay people off?

Why can't they stay abreast, as the private sector organizations do, of modern techniques in accounting that will catch these kinds of problems?

Mr. **BOWSHER**. I think it is a series of problems, Mr. Chairman. One thing is priority. In the Government, there has been a tendency over the years not to put a high enough priority on the accounting systems and internal controls, because it takes skilled people, it takes investment in modern equipment and computers. Also, you need an annual review of internal control systems. That is one of the big things missing in the Federal Government and I think it is what the Financial Integrity Act will do.

It will put in place in the Federal Government, much as you have in the private sector, namely an annual review of the systems and the internal controls. That review will be done by the inspectors general of each department and we will do an oversight review of the agency reports. So the annual review has been missing, and the priority has been missing, and a lot of people in these areas have worked very hard just trying to keep up, keeping the checks going out. But that is not good enough.

Senator **PERCY**. We have tried in this committee to be cost effective. We are delighted with the legislation introduced by Senator Eagleton and reported out of this committee creating inspector generals. I think it is a good building block.

I am delighted to hear that that problem is being corrected.

There has not been enough interest in this whole area of accounting and recognition of how much cost is involved. Certainly the interest is high today. This issue first caught my attention months ago when I learned that not one but 10 fake bills which had been sent by the GAO to the Department of Agriculture had been promptly paid.

What was the purpose of this test and how did you happen to make such a test?

Mr. **BOWSHER**. I would like John Cronin, on my right here, who ran this test to explain it to you.

Senator **PERCY**. You did conduct the test, did you, Mr. Cronin?

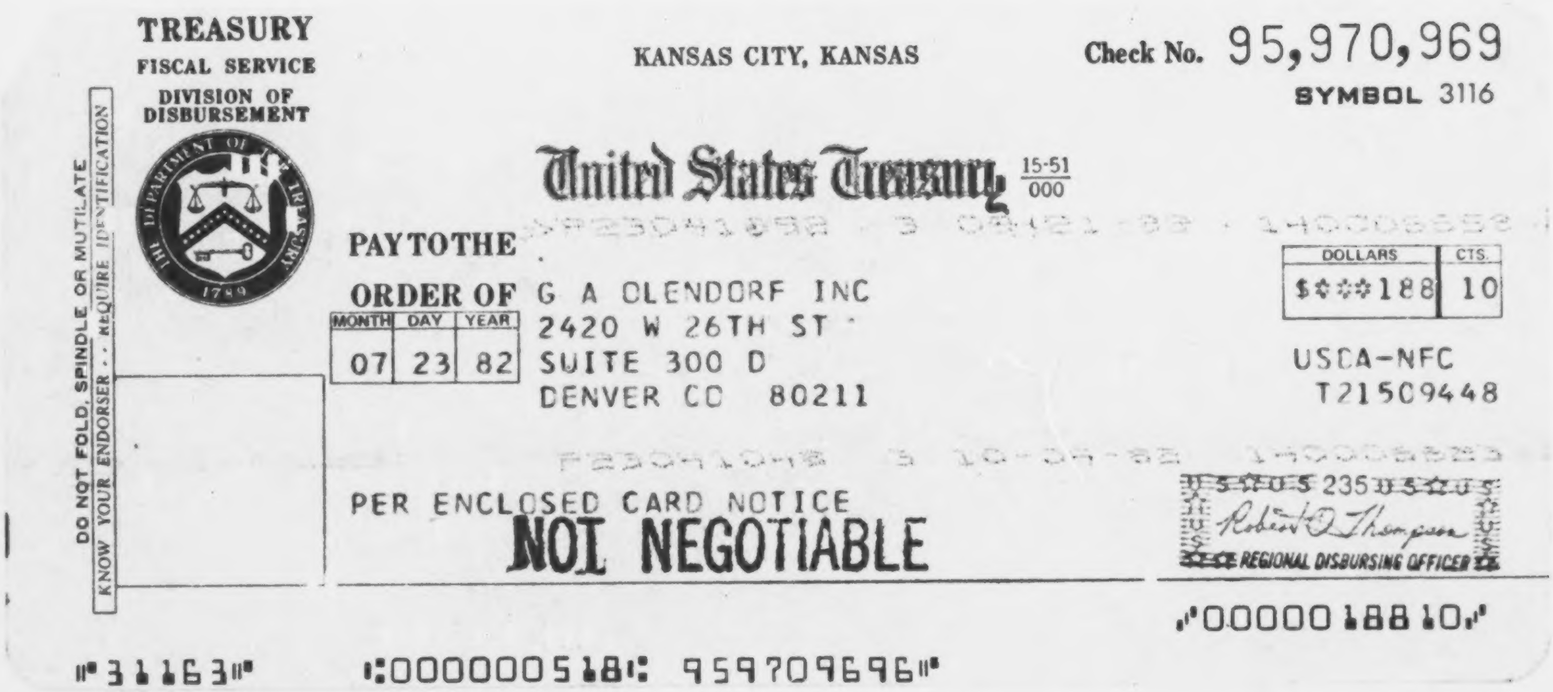
Mr. **CRONIN**. Yes.

Senator **PERCY**. We commend you for that. We would be happy to have your explanation.

Mr. CRONIN. We saw a basic hole in Agriculture's system insofar as verification of the individual payments. A very important requirement is to verify authorizing signatures in any payment system. The person who authorizes it should be scrutinized very carefully. We saw that was not being done in the system. We ran the test to see if the controls would work.

Senator PERCY. I have here a voucher, and 10 actual checks. The vouchers were sent out by the GAO, and the checks were received by the GAO. The blowups are right over here of one of the checks and one of the vouchers.

[The vouchers and checks referred to follow:]



TREASURY
FISCAL SERVICE
DIVISION OF DISBURSEMENT

KANSAS CITY, KANSAS

Check No. 95,970,969
SYMBOL 3116

DO NOT FOLD, SPINDLE OR MUTILATE
KNOW YOUR ENDORSER · · REQUIRE IDENTIFICATION

United States Treasury 15-51/000

PAY TO THE ORDER OF G A OLENDORF INC
2420 W 26TH ST
SUITE 300 D
DENVER CO 80211

MONTH	DAY	YEAR
07	23	82

DOLLARS	CTS.
$✩✩✩188	10

USCA-NFC
T21509448

PER ENCLOSED CARD NOTICE

NOT NEGOTIABLE

U S ✩ U S 235 U S ✩ U S
Robert D. Thompson
REGIONAL DISBURSING OFFICER

⑈31163⑈ ⑆000000518⑆ 959709696⑈ ⑈0000018810⑈

UNITED STATES DEPARTMENT OF AGRICULTURE

MISCELLANEOUS PAYMENT SYSTEM

PAYEE NAME (3): G. A. Olendorf, Inc.

1ST LINE ADDRESS (30): 2420 W. 26th St.

2ND LINE ADDRESS (30): Suite 300-D

CITY (20): Denver

STATE (2): CO

ZIP CODE (5): 80211

FOR RECORDING CHECK IDENTIFICATION INFORMATION — I.E. ORDER NUMBER, ORDER DATE, INVOICE NUMBER

(30) 1

(30) 2

(30) 3 BPA #36 June Statement

FUND CODE: T2

UNIT CODE (: Use Only) (2): 15

VOUCHER NUMBER (5): 9448

PAYMENT CODE (2): 01

ACTION CODE (1): A

FOREIGN COUNTRY CODE (2)

A	B	C		D	E OR MANAGEMENT CODE				OBJECT CLASS	HOURS OR FUND CODE/ UNIT CODE	AMOUNT		BLANK OR CR
5	10	5	3	4	1	4	1	2	4	8	11		2
					9	4073	2		2531		188	10	

PREPARED BY: JCS

DATE: 7/2/82

TOTAL ▶ 188 10

AUDITED BY:

DATE: 7/2/82

Pursuant to the authority vested in me, I certify that the item(s) listed herein are correct and proper for payment from the appropriation(s) designated.

AUTHORIZED SIGNATURE

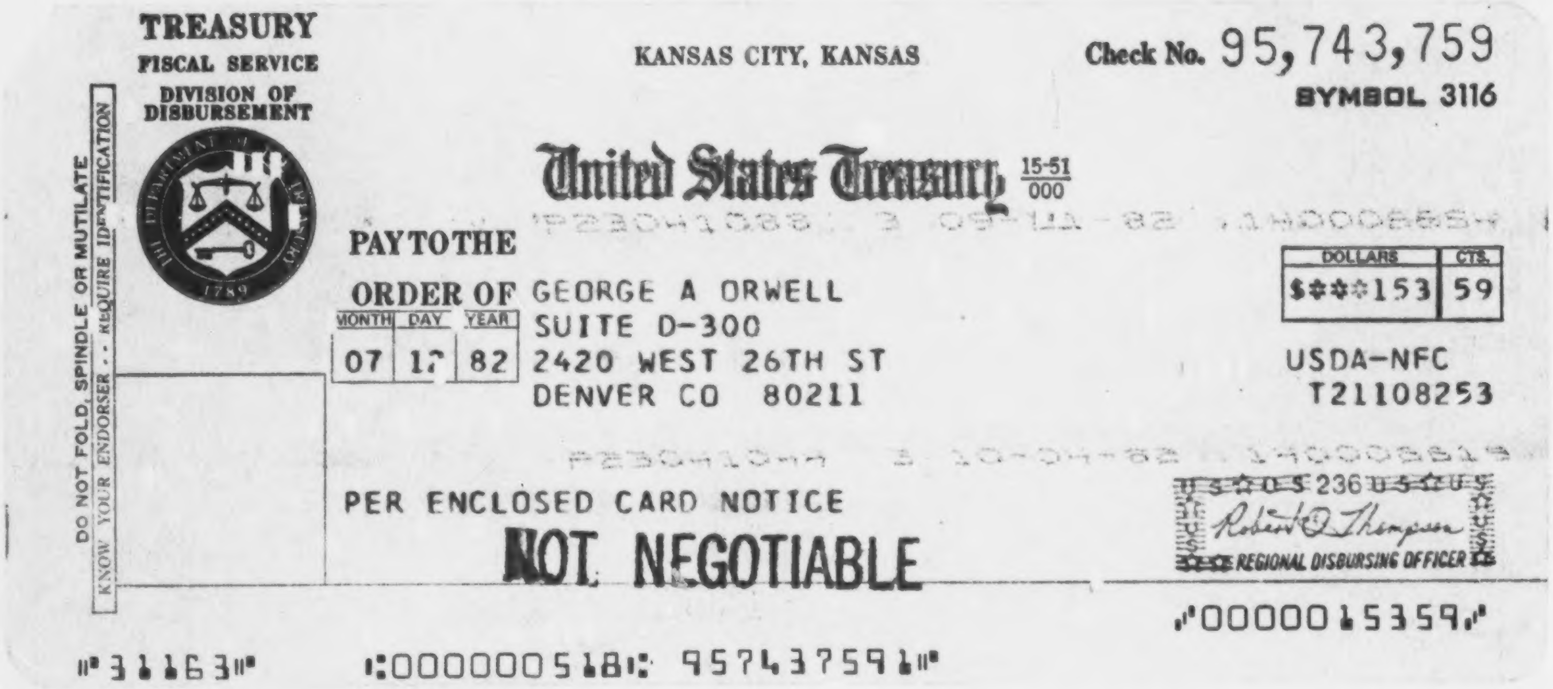
TITLE: Certifying Officer

DATE: 7-2-82

PHONE (Area Code and Number): 327-2567

FTS: X

COMM



TREASURY
FISCAL SERVICE
DIVISION OF DISBURSEMENT

DO NOT FOLD, SPINDLE OR MUTILATE
KNOW YOUR ENDORSER - - REQUIRE IDENTIFICATION

KANSAS CITY, KANSAS

Check No. 95,743,759
SYMBOL 3116

United States Treasury $\frac{15\text{-}51}{000}$

P2304108B 3 09-11-82 1400085H

PAY TO THE ORDER OF
GEORGE A ORWELL
SUITE D-300
2420 WEST 26TH ST
DENVER CO 80211

MONTH	DAY	YEAR
07	17	82

DOLLARS	CTS.
$✱✱✱153	59

USDA-NFC
T21108253

P2304104H 3 10-04-82 1400081S

PER ENCLOSED CARD NOTICE

NOT NEGOTIABLE

U S ☆ U S 236 U S ☆ U S
Robert O. Thompson
REGIONAL DISBURSING OFFICER

⑈0000015359⑈

⑈31163⑈ ⑆000000518⑆ 957437591⑈

UNITED STATES DEPARTMENT OF AGRICULTURE

MISCELLANEOUS PAYMENT SYSTEM

PAYEE NAME: GEORGE A. ORWELL
SUITE D-300
2420 WEST 26th St.
CITY: DENVER
STATE (2): CO
ZIP CODE (5): 80211

FUND CODE: T2
UNIT CODE: 11
VOUCHER NUMBER: 8253
PAYMENT CODE (2): 01
ACTION CODE (1): A
FOREIGN COUNTRY CODE (2):

FOR RECORDING CHECK IDENTIFICATION INFORMATION – I.E. ORDER NUMBER, ORDER DATE, INVOICE NUMBER
30 1: 53-40-4-1302
30 2: INV. # 3
30 3:

A	B	C	D	E OR MANAGEMENT CODE	OBJECT CLASS	HOURS OR FUND CODE UNIT CODE	AMOUNT	BLANK OR CR
5	10	5 3	1	1 4 1 2	4	8	11	2
				6 1014 0	2342		153 59	

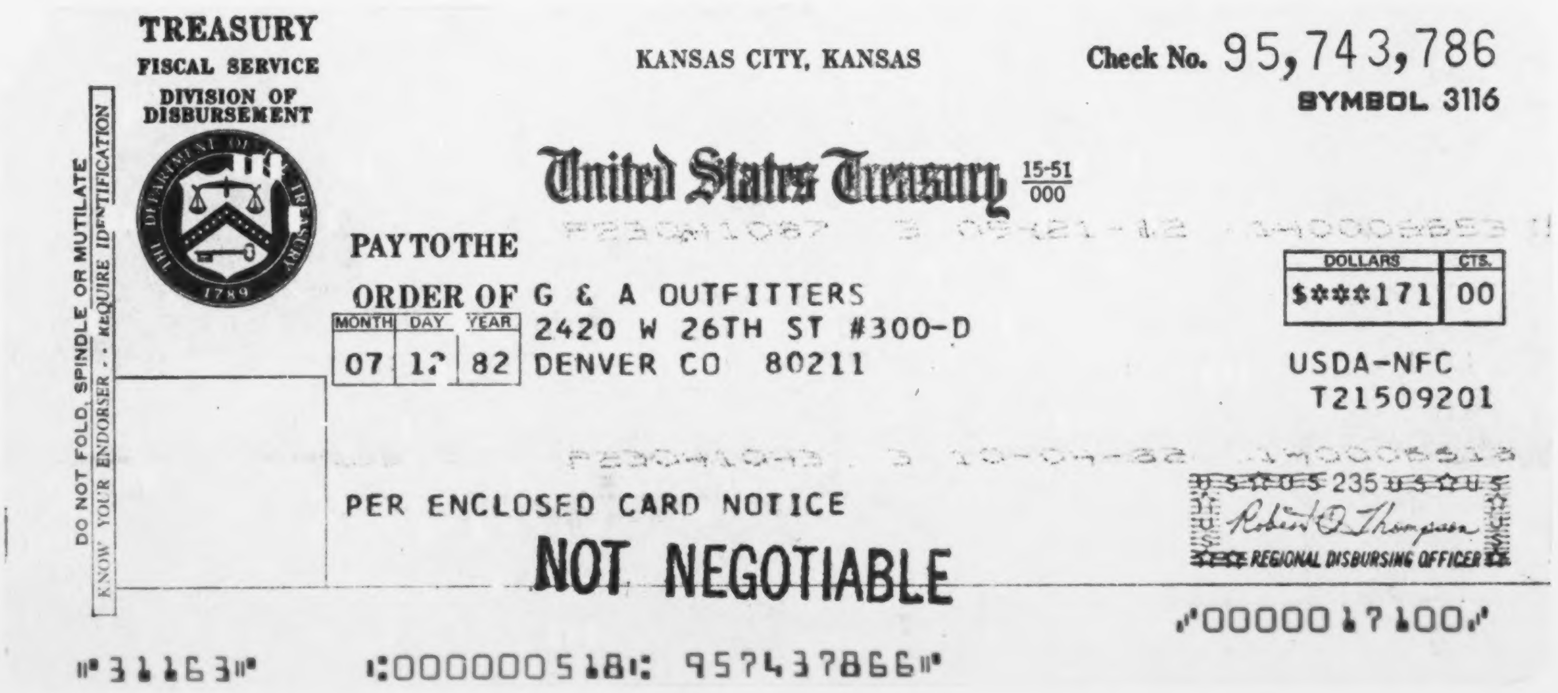
PREPARED BY: M. KANE
DATE: 6/24/82
TOTAL ▶ 153 59

AUDITED BY: BG
DATE: 6/24/82

Pursuant to the authority vested in me, I certify that the item(s) listed hereon are correct and proper for payment from the appropriation(s) designated.

AUTHORIZED SIGNATURE: J. Slade
TITLE: Budget Analyst
DATE: 6/24/82
PHONE Area Code Number: 327-2567
X

FORM AD-[illegible] REV. 5-81



TREASURY
FISCAL SERVICE
DIVISION OF DISBURSEMENT

KANSAS CITY, KANSAS

Check No. 95,743,786
SYMBOL 3116

United States Treasury $\frac{15\text{-}51}{000}$

DO NOT FOLD, SPINDLE OR MUTILATE
KNOW YOUR ENDORSER · · REQUIRE IDENTIFICATION

PAY TO THE ORDER OF G & A OUTFITTERS
2420 W 26TH ST #300-D
DENVER CO 80211

MONTH	DAY	YEAR
07	12	82

DOLLARS	CTS.
$✱✱✱171	00

USDA-NFC
T21509201

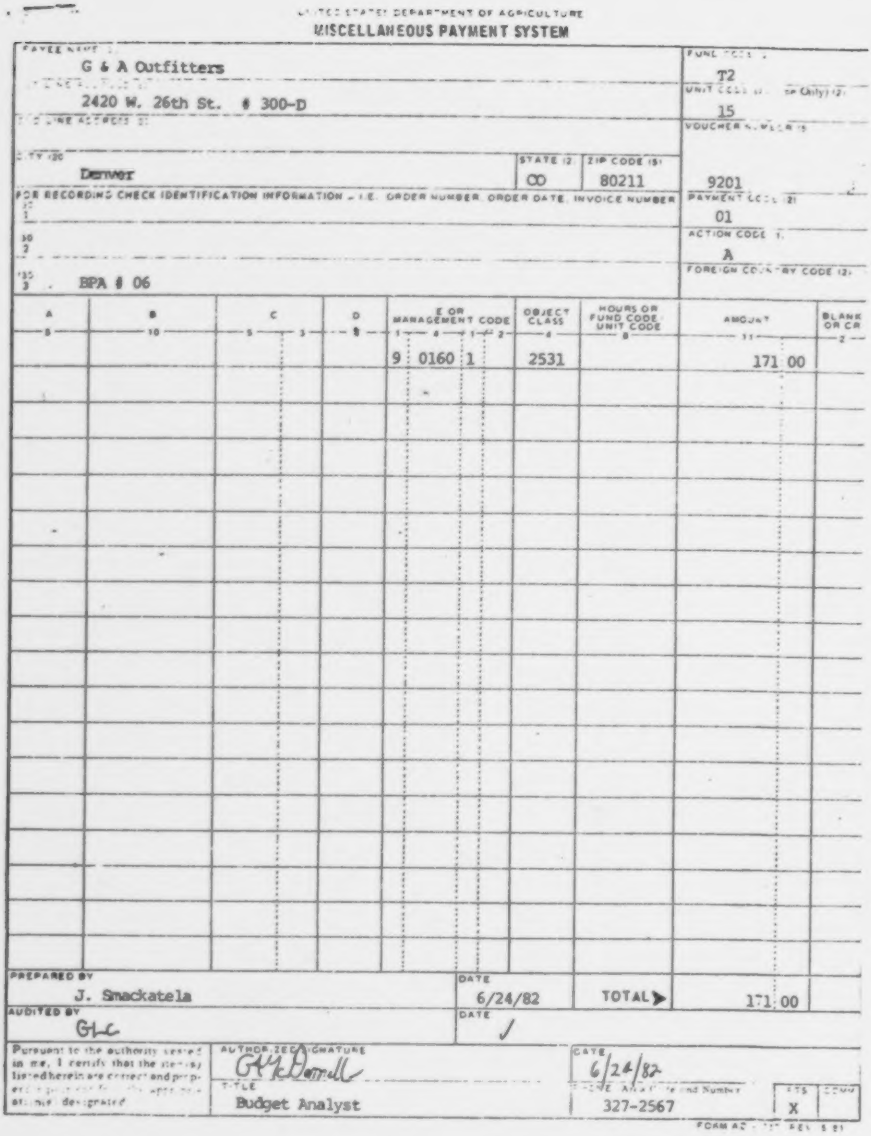
PER ENCLOSED CARD NOTICE

NOT NEGOTIABLE

U S ☆ U S 235 U S ☆ U S
Robert O. Thompson
REGIONAL DISBURSING OFFICER

⑈0000017100⑈

⑈31163⑈ ⑆000000518⑆ 95743786⑈



UNITED STATES DEPARTMENT OF AGRICULTURE

MISCELLANEOUS PAYMENT SYSTEM

PAYEE NAME
G & A Outfitters

STREET ADDRESS
2420 W. 26th St. # 300-D

2ND LINE ADDRESS

CITY (20) Denver
STATE (2) CO
ZIP CODE (5) 80211

FUND CODE T2
UNIT CODE (... Use Only) (2) 15
VOUCHER NUMBER (5) 9201
PAYMENT CODE (2) 01
ACTION CODE (1) A
FOREIGN COUNTRY CODE (2)

FOR RECORDING CHECK IDENTIFICATION INFORMATION – I.E. ORDER NUMBER, ORDER DATE, INVOICE NUMBER
1
2
3 . BPA # 06

A	B	C	D	E OR MANAGEMENT CODE	OBJECT CLASS	HOURS OR FUND CODE UNIT CODE	AMOUNT	BLANK OR CR
8	10	5 – 3	8	1 – 4 – 1 – 2	4	8	11	2
				9 0160 1	2531		171 00	

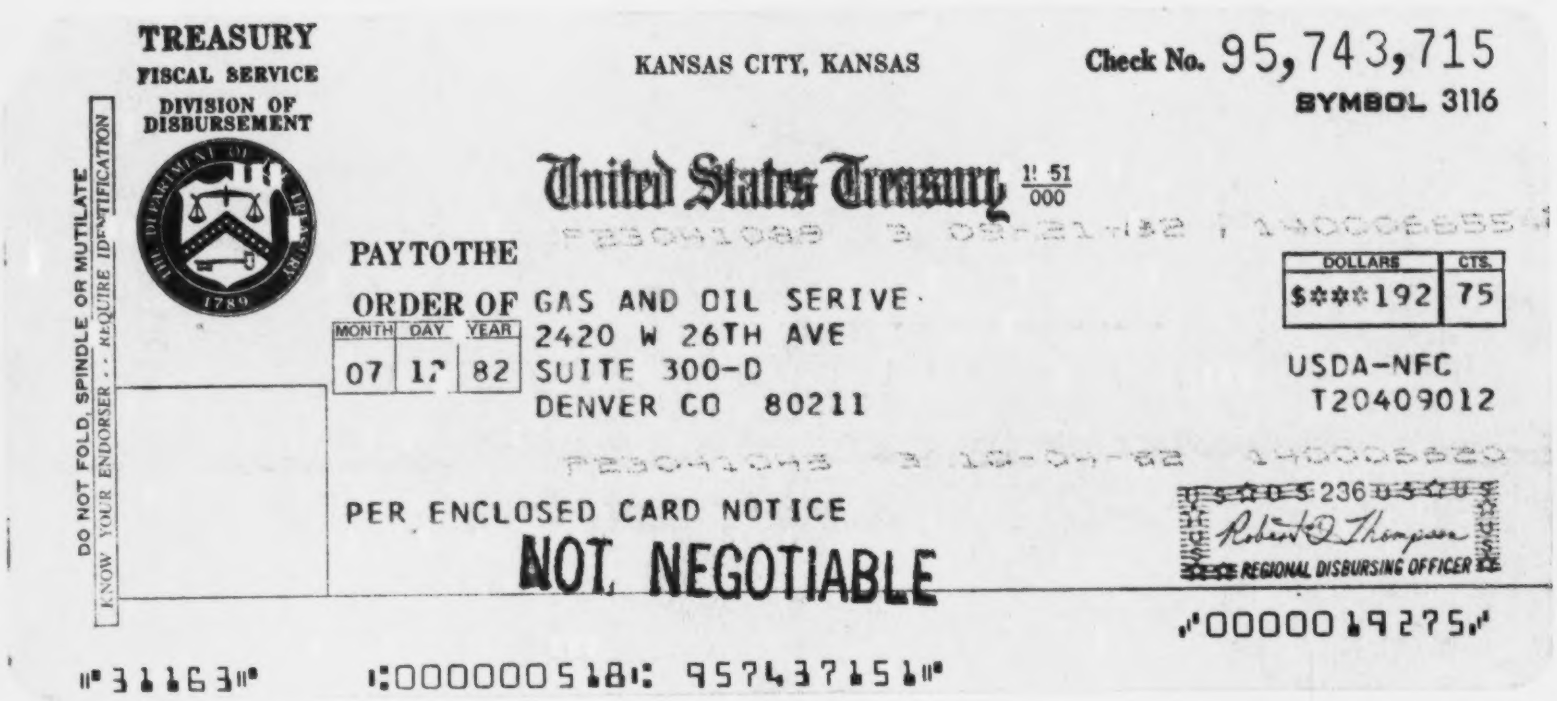
PREPARED BY J. Smackatela
DATE 6/24/82
TOTAL ▶ 171 00

AUDITED BY GLC
DATE ✓

Pursuant to the authority vested in me, I certify that the item(s) listed herein are correct and proper for payment from the appropriation(s) designated

AUTHORIZED SIGNATURE GHKDonnell
DATE 6/24/82
TITLE Budget Analyst
PHONE Area Code and Number 327-2567
FTS X
COMM

FORM AD-[illegible] REV. 5 81



TREASURY
FISCAL SERVICE
DIVISION OF DISBURSEMENT

KANSAS CITY, KANSAS

Check No. 95,743,715
SYMBOL 3116

United States Treasury $\frac{11\text{-}51}{000}$

F23041089 3 09-21-82 1400066555

PAY TO THE ORDER OF GAS AND OIL SERIVE
2420 W 26TH AVE
SUITE 300-D
DENVER CO 80211

MONTH	DAY	YEAR
07	17	82

DOLLARS	CTS.
$✲✲✲192	75

USDA-NFC
T20409012

F23041043 3 10-04-82 1400065820

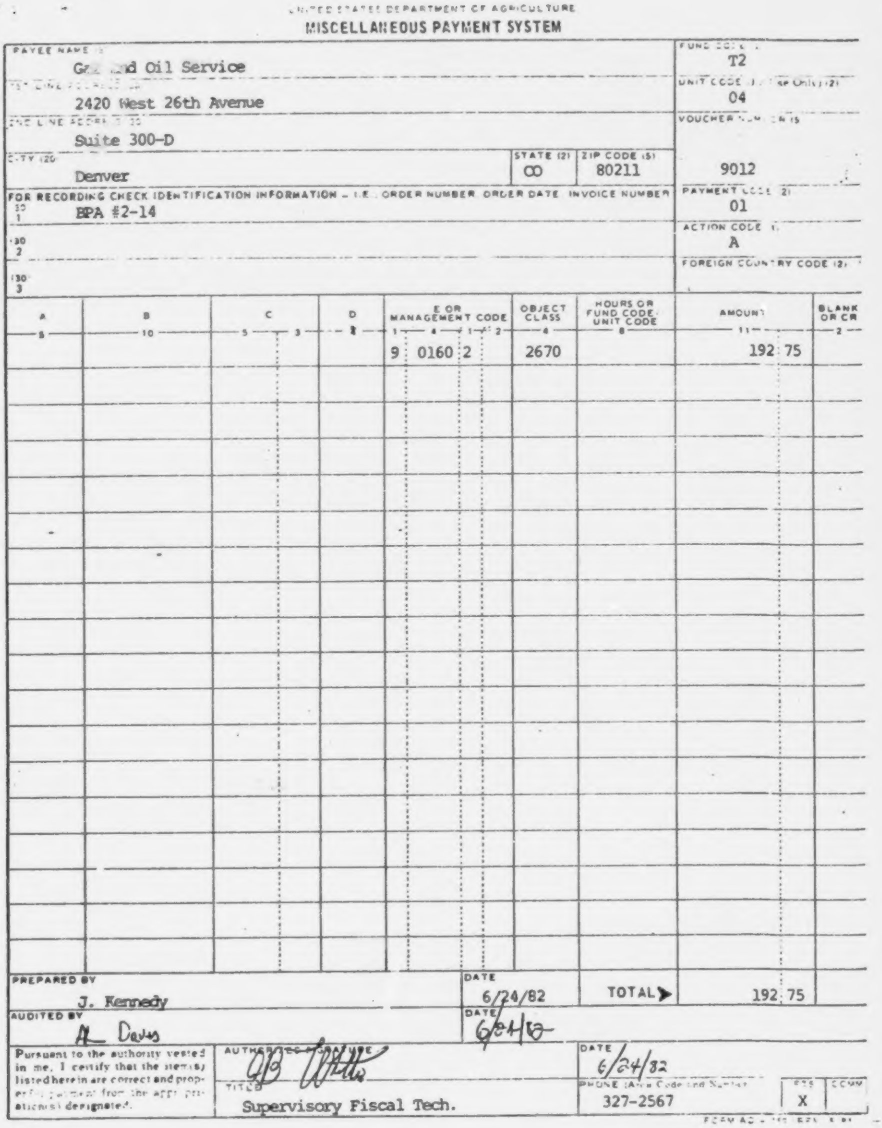
PER ENCLOSED CARD NOTICE

NOT NEGOTIABLE

US✩US 236 US✩US
Robert D. Thompson
REGIONAL DISBURSING OFFICER

DO NOT FOLD, SPINDLE OR MUTILATE
KNOW YOUR ENDORSER - - REQUIRE IDENTIFICATION

⑈31163⑈ ⑆000000518⑆ 957437151⑈ ⑈0000019275⑈



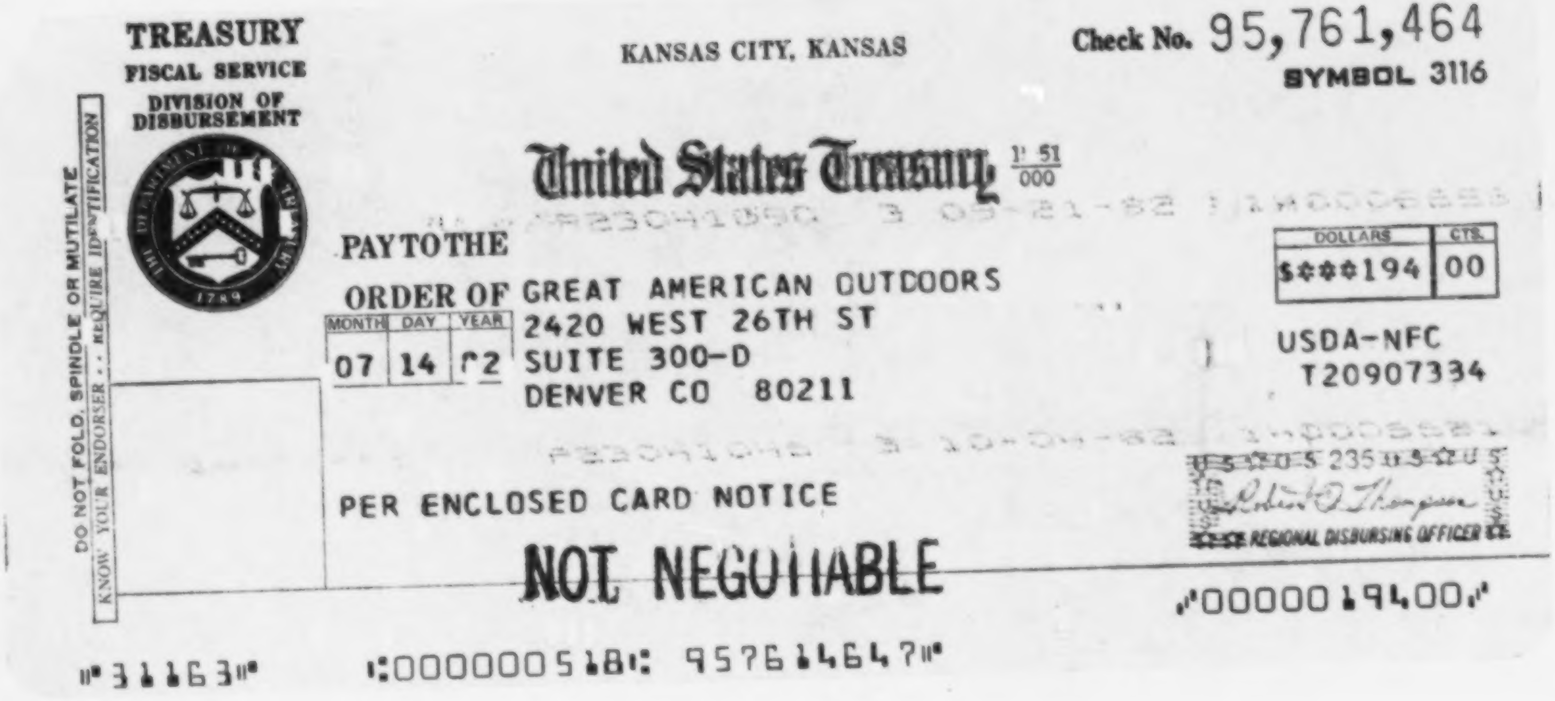
UNITED STATES DEPARTMENT OF AGRICULTURE

MISCELLANEOUS PAYMENT SYSTEM

PAYEE NAME (30) Gas and Oil Service	FUND CODE (2) T2
1ST LINE ADDRESS (30) 2420 West 26th Avenue	UNIT CODE (... Use Only) (2) 04
2ND LINE ADDRESS (30) Suite 300-D	VOUCHER NUMBER (5) 9012
CITY (20) Denver — STATE (2) CO — ZIP CODE (5) 80211	
FOR RECORDING CHECK IDENTIFICATION INFORMATION – I.E., ORDER NUMBER, ORDER DATE, INVOICE NUMBER (30) 1 BPA #2-14	PAYMENT CODE (2) 01
(30) 2	ACTION CODE (1) A
(30) 3	FOREIGN COUNTRY CODE (2)

A	B	C		D	E OR MANAGEMENT CODE				OBJECT CLASS	HOURS OR FUND CODE UNIT CODE	AMOUNT	BLANK OR CR
5	10	5	3	1	1	4	1	2	4	8	11	2
					9	0160	2		2670		192.75	

PREPARED BY J. Kennedy	DATE 6/24/82	TOTAL ➤	192.75
AUDITED BY A Davis	DATE 6/24/82		
Pursuant to the authority vested in me, I certify that the item(s) listed herein are correct and proper for payment from the appropriation(s) designated.	AUTHORIZING SIGNATURE TITLE Supervisory Fiscal Tech.	DATE 6/24/82 PHONE (Area Code and Number) 327-2567	FTS X COMM



TREASURY
FISCAL SERVICE
DIVISION OF DISBURSEMENT

KANSAS CITY, KANSAS

Check No. 95,761,464
SYMBOL 3116

United States Treasury $\frac{1\text{-}51}{000}$

DO NOT FOLD, SPINDLE OR MUTILATE
KNOW YOUR ENDORSER • • REQUIRE IDENTIFICATION

PAY TO THE ORDER OF
GREAT AMERICAN OUTDOORS
2420 WEST 26TH ST
SUITE 300-D
DENVER CO 80211

MONTH	DAY	YEAR
07	14	82

DOLLARS	CTS.
$***194	00

USDA-NFC
T20907334

PER ENCLOSED CARD NOTICE

NOT NEGOTIABLE

U S ☆ U S 235 U S ☆ U S
Robert D. Thompson
REGIONAL DISBURSING OFFICER

"00000 19400"

"31163" :000000518: 95761464?"

UNITED STATES DEPARTMENT OF AGRICULTURE

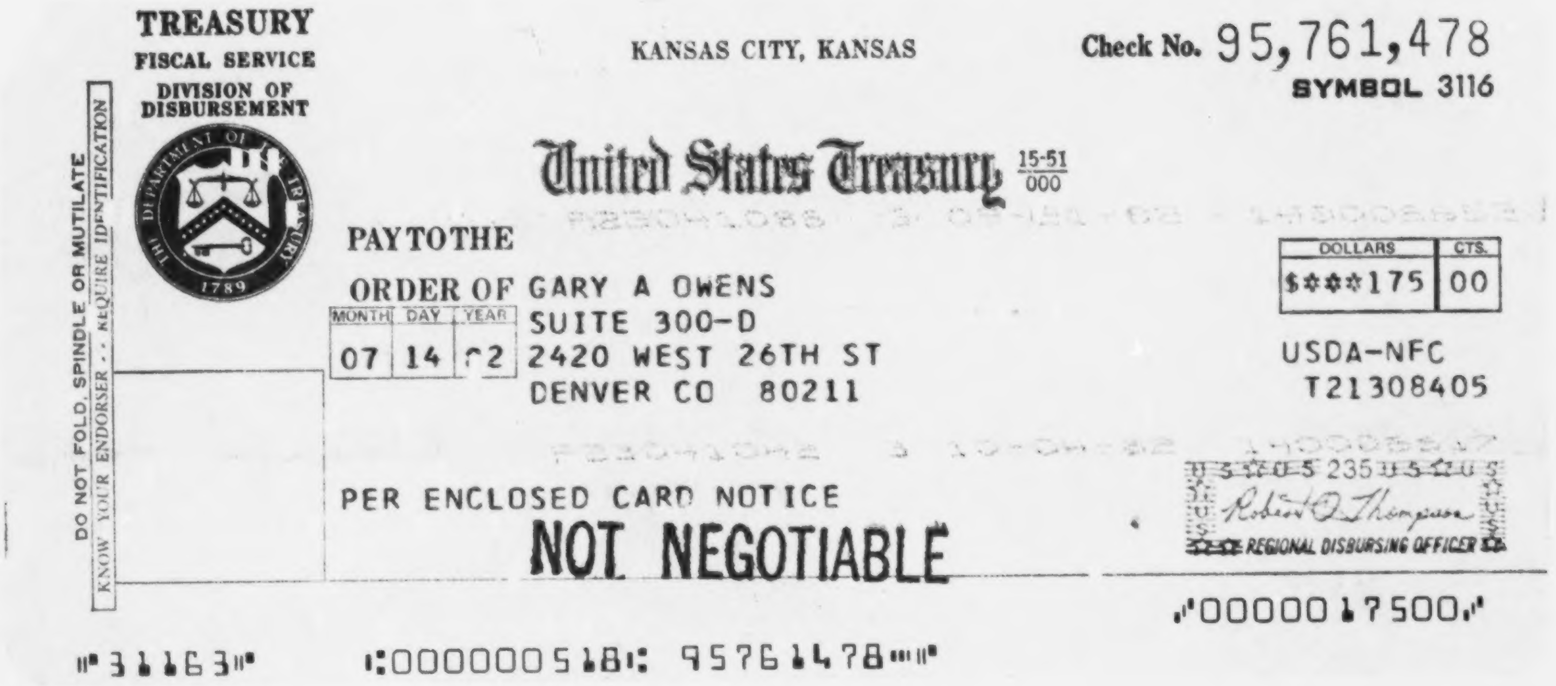
MISCELLANEOUS PAYMENT SYSTEM

PAYEE NAME (?) Great American Outdoors	FUND CODE T2
1ST LINE ADDRESS (?) 2420 West 26th St.	UNIT CODE ([illegible] Use Only) (2) 09
2ND LINE ADDRESS (?) Suite 300-D	VOUCHER NUMBER (5)
CITY (20) Denver — STATE (2) CO — ZIP CODE (5) 80211	07334
FOR RECORDING CHECK IDENTIFICATION INFORMATION – I.E. ORDER NUMBER, ORDER DATE, INVOICE NUMBER	PAYMENT CODE (2) 01
30 1 57-82X-4-258	ACTION CODE (1) A
30 2 May 82	FOREIGN COUNTRY CODE (2)
30 3	

A 5	B 10	C 5 3	D 4	E OR MANAGEMENT CODE 1 4 1 2	OBJECT CLASS 4	HOURS OR FUND CODE/UNIT CODE 8	AMOUNT 11	BLANK OR CR 2
				50 5	2670		194 00	

PREPARED BY V. Sinclair	DATE 6/28/82	TOTAL ▶	194 00
AUDITED BY B Clark	DATE 6/28/82		

Pursuant to the authority vested in me, I certify that the item [illegible] correct and proper for payment from the appropriation designated.	AUTHORIZED SIGNATURE R K Allen TITLE Certifying Officer	DATE JUN 28 1982 PHONE (Area Code and No.) 327-2567	FTS X



TREASURY
FISCAL SERVICE
DIVISION OF DISBURSEMENT

KANSAS CITY, KANSAS

Check No. 95,761,478
SYMBOL 3116

United States Treasury 15-51/000

DO NOT FOLD, SPINDLE OR MUTILATE
KNOW YOUR ENDORSER - - REQUIRE IDENTIFICATION

PAY TO THE ORDER OF

MONTH	DAY	YEAR
07	14	82

GARY A OWENS
SUITE 300-D
2420 WEST 26TH ST
DENVER CO 80211

DOLLARS	CTS.
$✲✲✲175	00

USDA-NFC
T21308405

PER ENCLOSED CARD NOTICE

NOT NEGOTIABLE

US 235 US
Robert O. Thompson
REGIONAL DISBURSING OFFICER

⑈31163⑈ ⑆000000518⑆ 95761478⑈⑈ ⑈0000017500⑈

UNITED STATES DEPARTMENT OF AGRICULTURE

MISCELLANEOUS PAYMENT SYSTEM

PAYEE NAME (3?)
Gary A Owens

1ST LINE ADDRESS (30)
Suite 300-D

2ND LINE ADDRESS (30)
2420 West 26th St

CITY (20)
Denver

STATE (2)
CO

ZIP CODE (5)
80211

FOR RECORDING CHECK IDENTIFICATION INFORMATION – I.E. ORDER NUMBER ORDER DATE INVOICE NUMBER
(30) 1 Refund performance bond
(30) 2
(30) 3

FUND CODE
T2

UNIT CODE (... Use Only) 2
13

VOUCHER NUMBER (5)
8405

PAYMENT CODE (2)
01

ACTION CODE (1)
A

FOREIGN COUNTRY CODE (2)

A 5	B 10	C 5 3	D 4	E OR MANAGEMENT CODE 1 4 1 2	OBJECT CLASS 4	HOURS OR FUND CODE/ UNIT CODE 8	AMOUNT 11	BLANK OR CR 2
				8 6315 8	4420		175 00	

PREPARED BY
F. Newton

DATE
6/28/82

TOTAL ➤ 175 00

AUDITED BY
Livingston

DATE
6/28/82

Pursuant to the authority vested in me, I certify that the item[s] [illegible] payment from the appropri[illegible]

AUTHORIZED SIGNATURE
John Sheppard

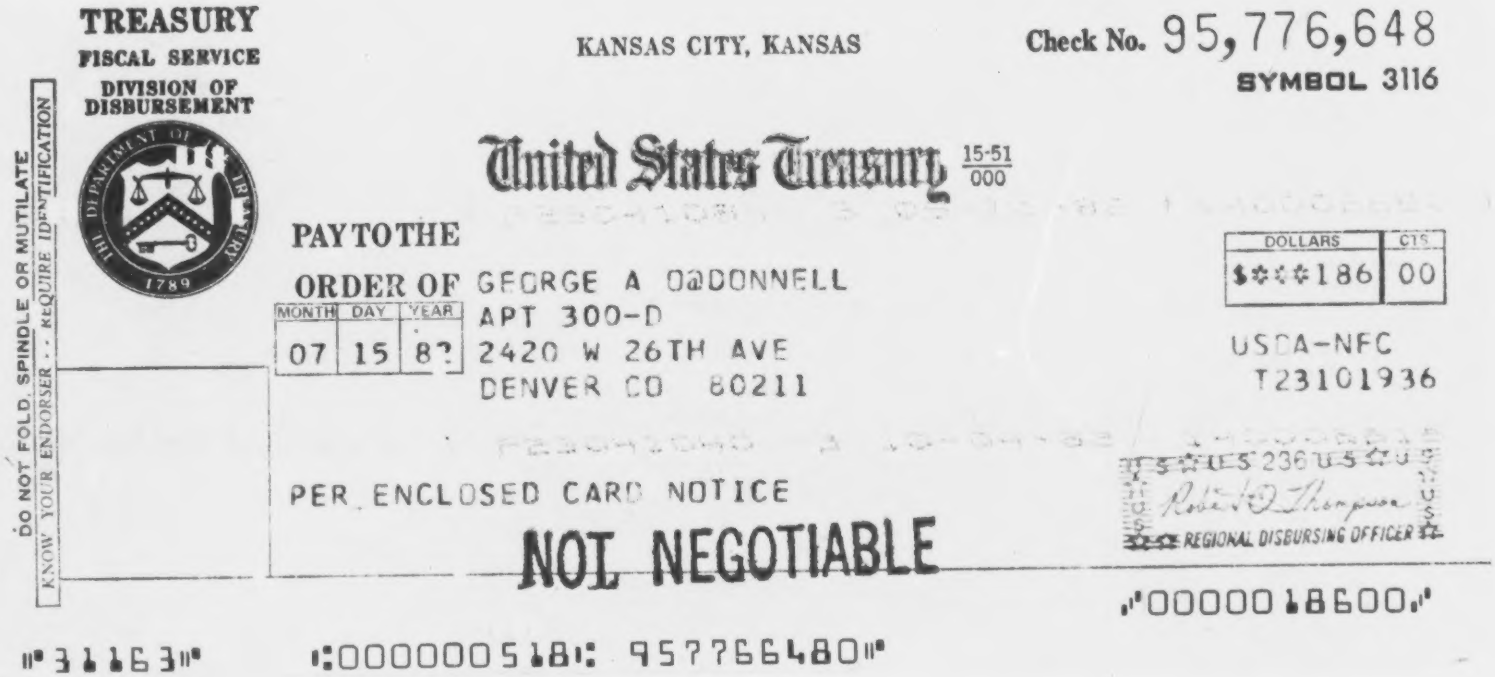
TITLE
Unit Certifying Officer

DATE
6/28/82

PHONE (Area Code and Number)
327-2567

FTS
X

COMM



TREASURY
FISCAL SERVICE
DIVISION OF DISBURSEMENT

KANSAS CITY, KANSAS

Check No. 95,776,648
SYMBOL 3116

United States Treasury 15-51/000

DO NOT FOLD, SPINDLE OR MUTILATE
KNOW YOUR ENDORSER · · REQUIRE IDENTIFICATION

PAY TO THE ORDER OF GEORGE A O@DONNELL
APT 300-D
2420 W 26TH AVE
DENVER CO 80211

MONTH	DAY	YEAR
07	15	82

DOLLARS	CTS
$✻✻✻186	00

USDA-NFC
T23101936

PER ENCLOSED CARD NOTICE

NOT NEGOTIABLE

Robert D. Thompson
REGIONAL DISBURSING OFFICER

⑈0000018600⑈

⑈31163⑈ ⑆000000518⑆ 957766480⑈

UNITED STATES DEPARTMENT OF AGRICULTURE

MISCELLANEOUS PAYMENT SYSTEM

PAYEE NAME 37
George A. O'Donnell
1ST LINE ADDRESS 30
Apt. 300-D
2ND LINE ADDRESS 30
2420 West 26th Ave.
CITY 20
Denver
STATE (2)
CO
ZIP CODE (5)
80211

FUND CODE
T2
UNIT CODE (... Use Only) (2)
31
VOUCHER NUMBER (5)
1936
PAYMENT CODE (2)
01
ACTION CODE (1)
A
FOREIGN COUNTRY CODE (2)

FOR RECORDING CHECK IDENTIFICATION INFORMATION – I.E. ORDER NUMBER, ORDER DATE, INVOICE NUMBER
1
2 53-48Z-5-121
3 Prelim. survey

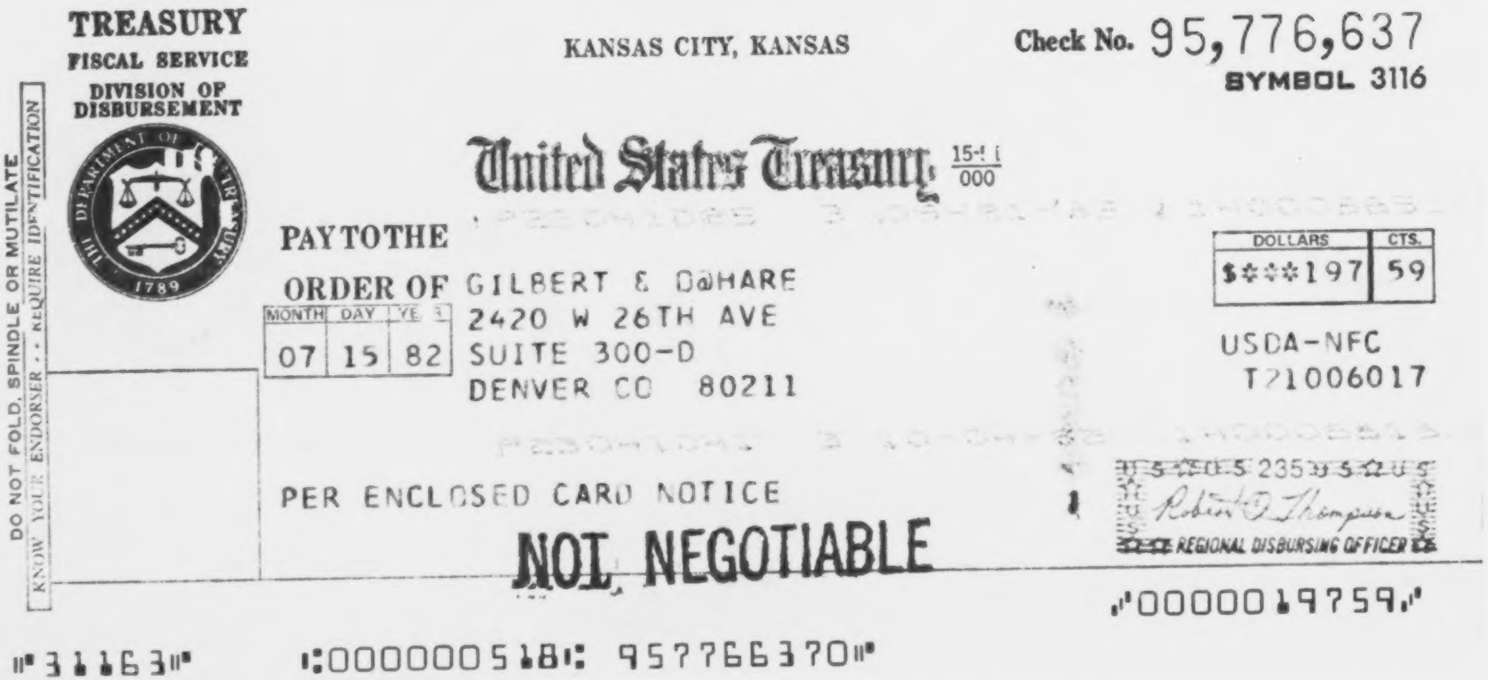
A	B	C		D	E OR MANAGEMENT CODE				OBJECT CLASS	HOURS OR FUND CODE/ UNIT CODE	AMOUNT		BLANK OR CR
5	10	5	3	4	1	4	1	2	4	8	11		2
						33	1		2540		186	00	

PREPARED BY
Paula Dale
DATE
6/30/82
TOTAL ▶ 186 00

AUDITED BY
DATE
6/30/82

Pursuant to the authority vested in me, I certify that the item(s) listed herein are correct and proper for payment from the appropriation(s) designated.

AUTHORIZED SIGNATURE
TITLE
Certifying Officer
DATE
6/30/82
PHONE Area Code and Number
327-2567
FTS
X
COMM



TREASURY
FISCAL SERVICE
DIVISION OF DISBURSEMENT

KANSAS CITY, KANSAS

Check No. 95,776,637
SYMBOL 3116

DO NOT FOLD, SPINDLE OR MUTILATE
KNOW YOUR ENDORSER - - REQUIRE IDENTIFICATION

United States Treasury 15-51/000

PAY TO THE
ORDER OF GILBERT & O'HARE
2420 W 26TH AVE
SUITE 300-D
DENVER CO 80211

MONTH	DAY	YEAR
07	15	82

DOLLARS	CTS.
$***197	59

USDA-NFC
T71006017

PER ENCLOSED CARD NOTICE

NOT NEGOTIABLE

Robert D. Thompson
REGIONAL DISBURSING OFFICER

⑈0000019759⑈

⑈31163⑈ ⑆000000518⑆ 957766370⑈

UNITED STATES DEPARTMENT OF AGRICULTURE

MISCELLANEOUS PAYMENT SYSTEM

PAYEE NAME: Gilbert and O'Hare
1ST LINE ADDRESS: 2420 W. 26th Avenue
2ND LINE ADDRESS: Suite 300-D
CITY (20): Denver
STATE (2): CO
ZIP CODE (5): 80211

FUND CODE: T2
UNIT CODE (FNS Use Only) (2): 10
VOUCHER NUMBER (5): 6017
PAYMENT CODE (2): 01
ACTION CODE (1): A
FOREIGN COUNTRY CODE (2):

FOR RECORDING CHECK IDENTIFICATION INFORMATION – I.E., ORDER NUMBER, ORDER DATE, INVOICE NUMBER
20 1 May 82 Stmt
30 2
30 3

A 5	B 10	C 5 – 3	D 2	E OR MANAGEMENT CODE 1 – 4 – 1 – 2	OBJECT CLASS 4	HOURS OR FUND CODE UNIT CODE 8	AMOUNT 11	BLANK OR CR 2
				9 0160 1	2531		197 59	

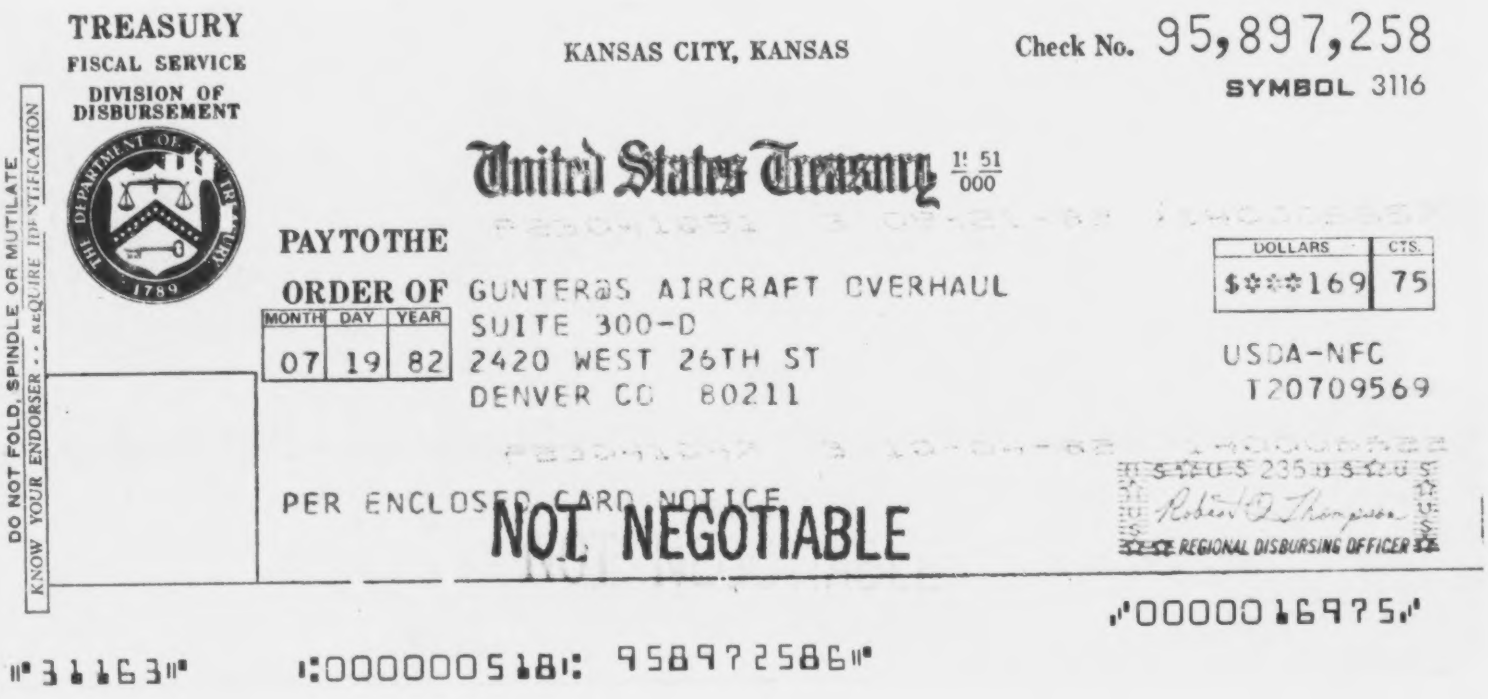
PREPARED BY: Betty Owen
DATE: 6/30/82
TOTAL ▶ 197 59

AUDITED BY: David Gibson
DATE: 6/30/82

Pursuant to the authority vested in me, I certify that the item(s) listed herein are correct and proper for payment from the appropriation(s) designated.

AUTHORIZED SIGNATURE: Jim C. Wilson
DATE: 6/30/82
TITLE: Budget Analyst
PHONE (Area Code and Number): 327-2567
FTS: X
COMM:

FORM AD [illegible] REV. 5 81



TREASURY
FISCAL SERVICE
DIVISION OF DISBURSEMENT

KANSAS CITY, KANSAS

Check No. 95,897,258
SYMBOL 3116

United States Treasury 11-51/000

DO NOT FOLD, SPINDLE OR MUTILATE
KNOW YOUR ENDORSER · · REQUIRE IDENTIFICATION

PAY TO THE ORDER OF

GUNTER@S AIRCRAFT OVERHAUL
SUITE 300-D
2420 WEST 26TH ST
DENVER CO 80211

MONTH	DAY	YEAR
07	19	82

DOLLARS	CTS.
$✲✲✲169	75

USDA-NFC
T20709569

PER ENCLOSED CARD NOTICE

NOT NEGOTIABLE

Robert D Thompson
REGIONAL DISBURSING OFFICER

"0000016975"

"31163" :000000518: 958972586"

UNITED STATES DEPARTMENT OF AGRICULTURE

MISCELLANEOUS PAYMENT SYSTEM

PAYEE NAME (30)
Gunter's Aircraft Overhaul

1ST LINE ADDRESS (30)
Suite 300-D

2ND LINE ADDRESS (30)
2420 West 26th St.

CITY (20) Denver
STATE (2) CO
ZIP CODE (5) 80211

FOR RECORDING CHECK IDENTIFICATION INFORMATION – I.E. ORDER NUMBER, ORDER DATE, INVOICE NUMBER
(30) 1 53-463-82 #3
(30) 2
(30) 3

FUND CODE (1) T2
UNIT CODE (15 Use Only) (2) 07
VOUCHER NUMBER (5) 9569
PAYMENT CODE (2) 01
ACTION CODE (1) A
FOREIGN COUNTRY CODE (2)

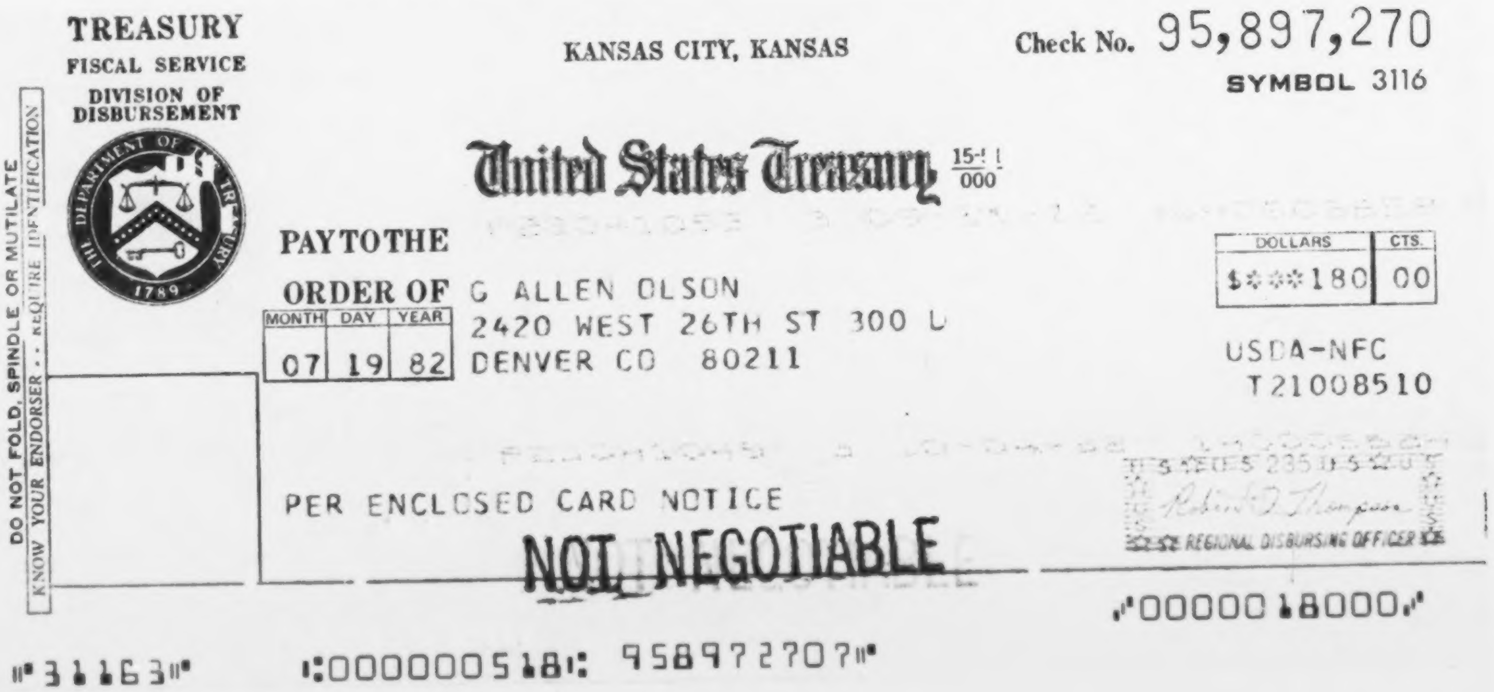
A 5	B 10	C 5 3	D 4	E OR MANAGEMENT CODE 1 4 1 2	OBJECT CLASS 4	HOURS OR FUND CODE/ UNIT CODE 8	AMOUNT 11	BLANK OR CR 2
				50 2	2160		169 75	

PREPARED BY J. Manson
DATE 7/2/82
TOTAL ➤ 169 75

AUDITED BY David
DATE 7/2/82

Pursuant to the authority vested in me, I certify that the item(s) listed herein are correct and proper for payment from the appropriation(s) designated.

AUTHORIZED SIGNATURE Rod Stewart
TITLE Certifying Officer
DATE 7/2/82
PHONE Area Code and Number 327-2507
FTS X
COMM



TREASURY
FISCAL SERVICE
DIVISION OF
DISBURSEMENT

KANSAS CITY, KANSAS

Check No. 95,897,270
SYMBOL 3116

DO NOT FOLD, SPINDLE OR MUTILATE
KNOW YOUR ENDORSER - - REQUIRE IDENTIFICATION

United States Treasury $\frac{15\text{-}51}{000}$

PAY TO THE
ORDER OF G ALLEN OLSON
2420 WEST 26TH ST 300 D
DENVER CO 80211

MONTH	DAY	YEAR
07	19	82

DOLLARS	CTS.
$✲✲✲180	00

USDA-NFC
T21008510

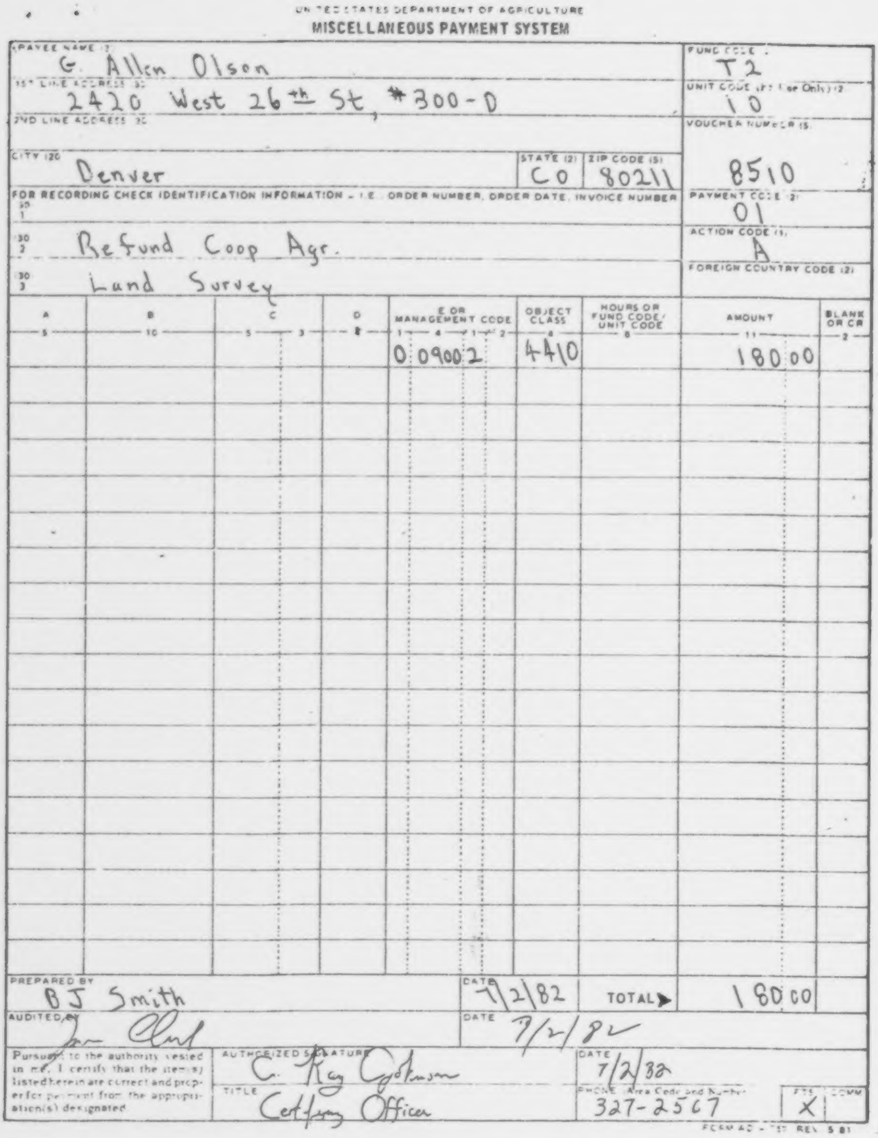
PER ENCLOSED CARD NOTICE

NOT NEGOTIABLE

Robert D. Thompson
REGIONAL DISBURSING OFFICER

⑇0000018000⑇

⑈31163⑈ ⑆000000518⑆ 958972707⑈



UNITED STATES DEPARTMENT OF AGRICULTURE

MISCELLANEOUS PAYMENT SYSTEM

PAYEE NAME (30): G. Allen Olson

1ST LINE ADDRESS (30): 2420 West 26th St, #300-D

2ND LINE ADDRESS (30):

CITY (20): Denver

STATE (2): CO

ZIP CODE (5): 80211

FUND CODE (2): T2

UNIT CODE (FS Use Only) (2): 10

VOUCHER NUMBER (5): 8510

PAYMENT CODE (2): 01

ACTION CODE (1): A

FOREIGN COUNTRY CODE (2):

FOR RECORDING CHECK IDENTIFICATION INFORMATION – I.E., ORDER NUMBER, ORDER DATE, INVOICE NUMBER

30 1

30 2 Refund Coop Agr.

30 3 Land Survey

A 5	B 10	C 5 — 3	D 8	E OR MANAGEMENT CODE 1 — 4 — 1 — 2	OBJECT CLASS 4	HOURS OR FUND CODE/ UNIT CODE 8	AMOUNT 11	BLANK OR CR 2
				0 0900 2	4410		180 00	

PREPARED BY: BJ Smith

DATE: 7/2/82

TOTAL ▶ 180 00

AUDITED BY:

DATE: 7/2/82

Pursuant to the authority vested in me, I certify that the item(s) listed herein are correct and proper for payment from the appropriation(s) designated

AUTHORIZED SIGNATURE: C. Ray Johnson

DATE: 7/2/82

TITLE: Certifying Officer

PHONE (Area Code and Number): 327-2567

FTS: X

COMM:

FORM AD - 737 REV. 5 81

Senator **Percy**. Could you identify what this voucher is?

Mr. **Cronin**. Yes, sir. There is a document called a miscellaneous payment system form. It generates payments to individuals and companies in Agriculture's system.

Senator **Percy**. How much does U.S. Department of Agriculture pay out each year on the basis of these types of vouchers?

Mr. **Cronin**. This particular subsystem pays over $500 million a year, Senator.

Senator **Percy**. Over one-half a million dollars is paid out on that type of voucher?

Mr. **Cronin**. Yes, sir.

Senator **Percy**. Each of the 10 vouchers has a name of a company and the 10 checks of the names are the same companies.

On the blowups of the checks and the vouchers in front of us, there is a payee named G. A. Olendorf. Who is G. A. Olendorf and how did his name get on the voucher?

Mr. **Cronin**. G. A. Olendorf is a fictitious company created by the General Accounting Office.

Senator **Percy**. Could you describe the other fictitious information you used on this voucher? What is, for instance, the address on the voucher, 2420 West 26th Street, in Denver?

What is at that address, by the way?

Mr. **Bowsher**. That is the GAO regional office in Denver, Colo., sir. The rest of the material on the document in the right-hand corner are various fund codes, unit codes, and other action codes that we obtained and are reasonably available in most of the Agriculture field stations preparing these vouchers.

At the bottom of the form we have various individuals who are also fictitious, including certifying officer and that is my signature as the authorizing signature.

Senator **Percy**. The name on the voucher, Mr. Slade, budget analyst. Who is he and who actually signed his name?

Mr. **Cronin**. Mr. Slade is another fictitious individual and the GAO auditor signed that document.

Senator **Percy**. Mr. Cronin, on the chart in front of us are the names of the 10 companies that were created by GAO.[1] I presume that you are behind all of these companies as well?

Mr. **Cronin**. Yes, sir. We created each of the individual companies. They all contain the initials GAO.

Senator **Percy**. Someone could easily go to an address, check it, find the GAO office and look at this but no one did, even with those hints on there.

The checks were issued and the vouchers were paid; is that correct?

Mr. **Cronin**. Yes, sir. In fact, the phone number on the bottom of the voucher is the actual phone number of the GAO regional office in Denver. If they would have called it, we would have answered it, "General Accounting Office."

Senator **Percy**. Any kind of a simple audit check could easily have been done to be certain that this is a phony.

---

[1] See p. 13.

The checks were all made out for under $200. Could they have been for much more and still have been paid?

Mr. Cronin. Yes, sir. The system without signature verification will pay amounts up to $100,000. After that, there is an examination. We deliberately kept the amounts under $200. We did not know how long they would hold the checks before we returned them to the Department and we did not want to create any budgetary constraints on the individual operating units that we charged the bogus transactions to.

Senator Percy. Have you found the Department of Agriculture cooperative, eager to get information and suggestions from you as to how they can correct this situation in the future?

Mr. Cronin. Yes, sir. As soon as we brought these matters to their attention, the Department has moved to take corrective actions in all of the areas in the report we give them. This was only one segment of the report.

As we discussed earlier, we talked to them about prompt payment of bills, not too early, not too late, and other areas of improvement. They have taken action in each one of them, sir.

Senator Percy. I called Secretary Block yesterday just to see that he did know about this personally, that he is aware of what had happened and that he was putting the full weight of his office behind correcting it.

I was assured that he was aware of it, was behind correcting the matter, and was really outraged by it.

Mr. Bowsher. Mr. Chairman, if I could say, we appreciate very much your personal interest in these kinds of reports and the committee's interest here because it is one thing, as you pointed out in your opening statement, for us to do the review and issue the report.

I think that when the committees and important chairman like yourself take a personal interest in contacting the Cabinet officer, that helps very much in getting corrective action taken.

Senator Percy. I cannot say that I have read every word of the 57 reports. The staff has carefully gone through them. I have a sense of what they are saying enough so that I wonder whether agencies are generally receptive to strengthening their internal controls. Have you encountered situations where agencies were less cooperative?

Mr. Cronin. Yes, sir. We have encountered several.

Senator Percy. Can you name such agencies?

Mr. Cronin. We ran into some problems with the Federal Highway Administration on findings on the collection of fines and penalties in an internal control report that we issued. They had not recorded receivables which is basic accounting requirements and decided not to accept our recommendation.

Fortunately, the Department intervened and the Department is now recording the receivables.

Another example that Mr. Bowsher referred to in his testimony was the Bureau of the Public Debt and their savings bonds stocks. They are a little reluctant to implement all of the internal controls that we recommended.

Senator Percy. Are there other agencies that you have mentioned that need to improve the level of cooperation and that the head of that agency, the Secretary of the Department, should be advised that his agency has not been as responsive as, say, Agriculture has?

Mr. CRONIN. Yes, Senator. We do send these reports to the secretaries of these agencies so they can take the action.

As Mr. Bowsher pointed out earlier, we sent our 1980 report to the heads of not just the 11 agencies we reviewed, but to all agencies. Unfortunately, in the following 2 years, we went to nine other agencies and found the same kind of weakness.

Senator PERCY. Would you mind naming a few of the agencies that you think the Secretary should devote some personal attention to directing his people to pay more attention to internal controls that have been pointed out as necessary in their particular department that have not been as responsive to GAO as you would like to see?

Mr. CRONIN. Two internal control reports just went out about a week ago—that was the Forest Service and the Veterans' Administration. We are awaiting responses from them at the present time as to what actions they will take.

Most of the other ones have promised and have taken corrective actions. All too often we find they take the actions only at the specific locations identified in our report.

We would like them to take that extra initiative to go to places that we didn't visit to see if the weakness exists there and fix them.

Senator PERCY. The one agency that should be the most responsive of all obviously would be the Treasury. Have you had total, complete, and satisfactory cooperation from Treasury?

Mr. BOWSHER. No, we have not, Mr. Chairman.

My people tell me that over the years there has been some reluctance on their part to make some of the changes and improvements simply because they feel that the percentage of loss, let's say, is not substantial enough to want to make those improvements.

We feel that there are certain basic internal controls that should be in place in most accounting systems and most inventory control systems and we keep recommending them.

I have talked to Secretary Regan and I think he wants to move forward without any question. He is bringing in a new person in the senior ranks, as I understand it, to look at these systems and controls and things like that.

So I think that he personally is very concerned.

Senator PERCY. I will not have to call him, but knowing him as well as I do, I know that he personally would not tolerate any inefficiency in his private life. He certainly hasn't in public life that I know of.

I hope the word will get back down through the ranks that he wants corrections made.

Senator Cohen.

Senator COHEN. Thank you, Mr. Chairman.

[The opening statement of Senator Cohen follows:]

OPENING STATEMENT OF SENATOR WILLIAM S. COHEN

Mr. Chairman, I commend you for holding this hearing to examine the efforts taken by Federal agencies to strengthen their internal control systems.

Internal controls which are properly conceived and effectively monitored are a proactive means of preventing waste, fraud, and abuse in Federal agencies. As a front-line defense, internal control systems safeguard against unauthorized use or expenditure of Federal resources and promote greater overall efficiency in Federal Government programs.

In their broadest sense, internal controls touch every phase of an agency's operation—starting with the budget process, extending through the recording of transactions, and ending with the reporting of results. Taken together, effective internal controls are at the heart of Government accountability.

At a time of severe budget restraints, Congress has recognized the importance of strong internal control systems and recently passed the Financial Integrity Act. Under this act agencies are required to evaluate their internal control systems on an ongoing basis to determine whether their systems are in compliance with standards established by OMB.

Recent GAO reports have found, however, that some agencies are unable to account for their resources. Despite the benefits of strong internal controls, these agencies are still operating with outdated and poorly designed systems.

This morning, we are going to focus on three examples of weak internal control systems and the steps taken to improve them. I look forward to hearing the testimony of all of the witnesses today.

Senator COHEN. Mr. Bowsher, as I understand it, the objective of your sting operation was to find out what the flaws were in the National Finance Centers internal control system. According to your report, GAO returned the checks which it received through the bogus vouchers to USDA for cancellation. Is that right?

Mr. BOWSHER. That is correct.

Senator COHEN. What happened?

Mr. CRONIN. Contrary to our instructions, which were that the checks should be canceled, that means that since they were not due to those particular payees being fictitious consistent with the Treasury regulations, we told the Department to return them to the Kansas City Disbursing Center, as evidenced by the top of the check, for what we call cancellation and reversal of the entry.

Instead, the Department deposited them with their other checks as income.

Senator COHEN. I take it that is a violation of the Treasury regulations?

Mr. CRONIN. Yes, sir.

Senator COHEN. Had you already told them that in advance?

Mr. CRONIN. Yes, sir.

Senator COHEN. What excuse did they give you?

Mr. CRONIN. We have not had an opportunity to discuss that with them, Senator. I think they believed it was just easier for them to do it that way since they had other legitimate checks going to the bank anyway, as opposed to a separate operation of mailing the checks to Kansas City which made it more difficult for us to retrieve them.

We could have just gone to Kansas City and obtained the checks back. We had to go through the banking system to get the checks since they cleared through the system and showed up payments which we tried to avoid.

Senator COHEN. Mr. Bowsher, you indicated in your testimony that the Bureau of Indian Affairs until recently operated an internal control system which was poorly designed and outdated.

I can tell you from my experience, as chairman of the Indian Affairs Committee for 2 years now, that the stories about BIA's computer systems—in terms of their inefficiency and incompetency—are legendary. But now BIA has purchased, I am told, $15 million in new computer equipment.

Has that corrected the problem?

Mr. BOWSHER. No, it hasn't, Senator. That is one of the things that we pointed out in our report that concerned us. I think all too often—this is true sometimes in the private sector—people think getting a new computer automatically solves basic internal control problems. It doesn't.

What we tried to express in our report to them is that they really have some basic system problems they have to go back and work on. And they shouldn't be assuming that the new computer will do it.

Senator COHEN. Even if they get an Apple III, it will not correct the problem.

Mr. BOWSHER. That is right.

Senator COHEN. I was particularly interested in your findings that OPM continued to pay benefits to deceased beneficiaries—in some cases long after they died. I guess some $30 million; is that correct?

Mr. BOWSHER. I believe that is correct.

Mr. CRONIN. Yes, sir.

Senator COHEN. Do most agencies depend upon the relatives of the beneficiaries to voluntarily report deaths?

Mr. CRONIN. Yes.

Senator COHEN. Is that the best agencies can do? Would you recommend that agencies wait until the relatives notify them about the death?

Mr. CRONIN. We have discussed the possibility with OPM of high risk cases of extremely elderly people, people in nursing homes, periodically checking and having a positive verification.

OMB, I believe, is considering this at the present time.

Mr. BOWSHER. Senator, if I could add to that because I had a meeting Friday afternoon not related to this hearing at all, but it was on that very issue of death notification into the Federal Government's systems and it is a real problem, much bigger problem than I was aware of. So we are going to be looking at that.

It is a real problem because now with some of the changes in the programs and some of the restrictions that have been put on the Federal Government leaves it on the honor system. I think what we are finding out is that there are too many cases of people not notifying the Government of the death.

Senator COHEN. Do you think there should be a central source of death data?

Mr. BOWSHER. That is one of the things we are going to be looking at. I hesitate to make a quick decision on that. But I think it is one of the things we will try to be considering down the road.

Senator COHEN. The problem goes beyond the lack of notification, as we have discovered from recent investigations into the social security disability claims. We have had cases where people have received payments, sent them back, and received the payments again. It reaches the point where the person has had to hand-deliver the payments back to the agency.

They keep getting the checks back. A name gets in the computer and they cannot get it out. So that happens as well, does it not?

Mr. BOWSHER. Yes; we have done quite a bit of work and issued other reports in that area. They have some real problems in their systems out there.

Senator COHEN. What do we do about it?

Mr. BOWSHER. They are working on them. I hope they can get them corrected. But we will keep checking.

Senator COHEN. But you recommend against this volunteer system that we have—the honor code—for beneficiaries of Federal pensions or payments reporting deaths?

Mr. BOWSHER. No; I don't recommend against it. I am just saying we are going to be looking at what are the procedures and why they are breaking down in some places. What we found in discussing them on Friday afternoon was that more and more the Federal Government does not have any, you might say, automatic reporting systems.

It is more or less just when the beneficiaries send back the check; or go in and notify the Government agency that the person is deceased that an adjustment is to be made in the program.

Senator COHEN. Later this week we will be holding 2 days of hearings on computer matching.

Do we have a system now where agencies try to match up the payments with other programs?

Mr. BOWSHER. They have been doing some matching. I think they will explain that to you, Senator. But there is not the sense of matching that they might possibly use with modern computers if they got them working right.

Then, of course, you run right into the privacy issue. That has got to be thought through, too.

Senator COHEN. That is all I have, Mr. Chairman.

Senator PERCY. Thank you, very much.

This will conclude other questions.

I would like to go back to our discussion about the Treasury Department.

I understand that their response to you implied that because their actual losses are insignificant internal controls are not necessary.

For example, while the Treasury Department admits that they have some problems, they point to the fact that a very small percentage of their savings has been lost and fraudulently redeemed.

Would you say that these losses are insignificant and do you think that they require the kinds of controls that you have actually suggested to them?

Mr. BOWSHER. We are not sure what the losses really are. In other words, they way the accounting system was maintained, it is difficult to determine exactly what the losses are. We think that the amount of the potential loss, where they have lost control of the basic documents are large enough to be concerned with and we believe some basic controls should be established.

Again we are not talking about elaborate controls. One of the things I have asked my people to do is talk to American Express and maybe other companies in the private sector to see how they control things like traveler's checks.

Our initial discussions with them indicate that they are much more concerned about internal control and control over their basic stock. So we are going to be pursuing that before we sign off on this report. But what we really believe is the potential for loss is significant enough that these controls should be considered.

Senator PERCY. I would point out this morning's Chicago Tribune, where on the front page they have the story, "Fraud, Laxity in Government Costs $150 Million."

I think the day of having no public interest in this particular matter is over. I think the fact that they saw fit to put this story on the front page and quote extensively on some of the laxity is encouraging to those of us who are trying to get at the bottom of some of this inefficiency and without objection I will insert this in the record in the appropriate place.

[The article referred to follows:]

[From the Chicago Tribune, Dec. 12, 1982]

FRAUD, LAXITY IN GOVERNMENT COSTS $150 MILLION

(By James Coates)

WASHINGTON.—Lax government office practices have led to more than $150 million in losses because of theft and fraud, according to a General Accounting Office investigation completed last week.

The government, according to an investigation requested by Sen. Charles Percy [D., Ill.], has been sending pension crecks to dead people, payment checks to companies that don't exist and mountains of blank government bonds, some of which were later stolen, to various agents.

Percy will open hearings Monday into fraud and laxity in government operations identified by the investigators.

"These deficiencies may be costing taxpayers hundreds of millions of dollars annually," said Charles Bowsher, U.S. Comptroller General and head of the GAO, in remarks prepared for Percy's hearings.

He estimated that in a recent 2½-year period, $150 million to $220 million were lost to fraud.

In one case at the Sears Bank and Trust Co. in 1979, an employee took $453,000 in blank savings bonds and sold them to "fences," who began cashing them around Chicago, according to the investigation.

The GAO's investigative reports, obtained by The Tribune, describe a variety of examples of carelessness in federal office work.

In a "sting" style operation, for example, the GAO sent 10 fictitious bills, all of less than $200, to the U.S. Department of Agriculture under the names "George A. Orwell," "Gary A. Owens" and "Gilbert and O'Hare," among others.

In all of those cases, the department promptly sent payments to the same address in Denver. Department of Agriculture purchasing officers failed to check whether the companies existed, actually had government contracts or supplied goods or services.

The reports also show that the Department of the Treasury cannot account for blank government bonds that have a face value of $132 million. They disappeared after they were sent to the banks and corporate paymasters who were to sell them to employees.

At the Office of Personnel Management, responsible for the federal payroll, the GAO found that clerks sent monthly pension checks to thousands of retired government employees who had died.

Between January, 1978, and March 23, 1981, pension checks were mailed mistakenly to relatives of 30,000 deceased federal bureaucrats, according to the investigators.

All of the examples, Percy said, point to laxity in federal operations. How much is lost because of sloppy office work is anyone's guess, according to Percy, but "these lax practices have left the door wide open for fraud and abuse."

Both the GAO and Senate investigators said they believed the Agriculture Department has reformed its office practices in the wake of the "sting."

But Bowsher said in a letter to Percy that most deficiencies in government business practices continue.

One of the major losses cited in the investigation occurred in the Treasury Department's Bureau of Public Debt, which issues bonds to finance government operations.

The GAO questioned whether the Treasury pays enough attention to how it sends blank bonds to its 44,000 "agents" at businseses, banks and other institutions where savings certificates are sold.

It pointed out that the Treasury Department had sent 255 sales agents enough blank bonds to maintain their normal sales rates for at least a century. Another 766 were sent enough blank forms to last 50 years.

However, Treasury Department officials disputed the GAO's conclusions about the amount of money lost. The GAO said it was $35 million; the department said it was $4.8 million.

The GAO also criticized the way the Treasury Department handled the Sears Bank and Trust case.

Law-enforcement officials said the theft was discovered between April and May of 1981, when a large number of the bonds were cashed.

An investigation led to a former Sears Bank employee who was in Cook County Jail. He admitted that he took the bonds and sold them to fences. Although the case was forwarded to the Justice Department, there was no prosecution.

In that incident, the bank was not blamed and the government covered the loss because the bonds were kept in a locked cabinet that had been opened by an employee with a stolen key.

Investigations by the Justice Department and FBI implicated members of the Chicago-based Black Hebrew religious sect, a controversial group that has established a large colony in Israel. Three members were indicted in 1981 by a grand jury for illegally cashing $700,000 in securities, including government bonds.

The three, who are fugitives, have not been brought to trial, but a second federal case against another sect member, also involving government issues stolen at Sears Bank, is to come to trial Monday in U.S. District Court, according to assistant U.S. Atty. Patrick Deady.

Before the Sears case, regulations required that agents who sold the bonds be responsible for them.

According to the GAO, the Sears case means that the government will have to prove negligence in future cases, "something that would be costly and difficult to do."

The GAO's attention was drawn to the pension-check problem after it learned that the government had paid $11,395 to a dead woman because it did not learn of her death for more than seven years.

In another case, the GAO learned that someone at a convalescent hospital was cashing the checks of a deceased patient who had usually endorsed them by signing an "X" in front of witnesses.

It came up with the 30,000 overpayment cases by checking death records in the Social Security Administration files with Office of Personnel Management retirement payments list.

Senator PERCY. According to your report on savings bonds, the 44,000 issuing agencies have many more savings bonds on hand than they need. The chart right in the back of the room shows that 255 agencies had over 100 years worth of blank savings bonds on hand, 766 agencies had 50 to 100 years worth and so on.

Why would they need so many blank bonds on hand? Wouldn't having such a tremendous amount on hand open the door to problems?

Mr. BOWSHER. Yes. We think it does. According to the bureau's criteria, the agency should have only enough stock on hand and on requisition to support 3 months of sale activities.

If you look at that chart, you will see that is the first category up there. The only possible need for some excessive stocks would have been if they had on hand high value bonds that are very slow moving.

We checked for this, in doing our work, and computed the years of stock on hand for some agents without considering those high dollar bonds where the agent had little or no sales activities.

We still found those agents to have a considerable amount of excessive stock. Of course, any time I think that you have excess inventory, there is the potential for possible problems.

Senator PERCY. I would like to ask Mr. Cronin one last question. I do so because the debt collection bill, which has been reported out of this committee and adopted by both the House and Senate and signed by the President, was modified in the House. That they felt, and I think with some justice, that overpayments that have actually been made to some recipients of Federal checks might impose a terrible hardship on them. For instance, social security recipients receive increases, adjustments for cost of living and they may be receiving those checks. Then the question is: If the error had been made by the Government for a person living on a marginal income, what is the responsibility of that person? Does he have to check: Am I getting the right amount? Should I question the Government on what I am getting? Suppose he finds out a year or two later he wasn't responsible for it. He wasn't eligible for it but the Government paid it in error. Then, what is he to do? Is he supposed to pay it back? Out of what, then?

Later this morning we are going to hear from the Office of Personnel Management about their controls over payments to Federal retirees. Could you summarize for us the problem that you found at OPM and how much has been lost?

Mr. CRONIN. As noted in most of our systems reviews, OPM has not installed the necessary controls to minimize the opportunities for overpayment.

As an example, it did little to identify the deceased beneficiaries or disabled persons receiving both retirement and compensation benefits and it also did not properly account for the overpayment that arose and did not follow the recognized procedures in collecting the overpayments, such as assessing interest or using offsets. On your particular example of hardship, Senator, in many cases these are people that know they are getting improper payments because they are receiving payments from two systems; disability compensation and regular disability retirement benefits. They know they are only entitled to one and they receive both.

Senator PERCY. So that they knowingly are getting two checks—yet the system itself has been such that it allows them to get it. They are not exempted to make the record straight, from the debt collection bill, only social security recipients are. But civil service retirement and disability are not exempted from that.

Mr. CRONIN. Where there is a hardship case, where there is an error in the compensation, the person is innocently injured, they do have a procedure for having hearings to resolve them and provide relief.

Senator COHEN. You indicated that the OPM had no internal mechanism for finding these deceased beneficiaries, but no agency does according to what you said before. There is no standard uniform system of gathering this kind of information. So you fault that particular agency for having no system even though none of them do.

Mr. CRONIN. That is correct, Senator. When we started talking to OPM during this job, we got them talking to the Social Security Administration and they have matched with some of the Social Security files and did discover a large number of overpayments.

I understand they are going to be addressing that when they appear this morning.

Senator PERCY. We thank you very much, indeed, for the work that you have done in this area and for all of the backup people in GAO that have made these hearings possible.

We certainly will follow up on your recommendation. We appreciate your appearance this morning.

Mr. BOWSHER. Thank you, very much, Mr. Chairman.

Thank you, Senator.

Senator PERCY. I would like to call as our next witnesses Clyde G. McShan II, accompanied by Dean Crowther, Director, Office of Administrative Systems, USDA. I would like to welcome Mr. McShan and Mr. Crowther to the hearing this morning. It takes a little courage to come before this subcommittee this morning after what GAO did to you with the check. I must say I was surprised when I learned they were able to submit 10 phony bills and have them all paid. You must have been surprised as well.

To your credit, I understand that you quickly responded to the GAO by fixing the problems in your payment system. Again, we welcome you as an inspiration to other agencies who we hope will act just as promptly, quickly and effectively as you have and the Department of Agriculture to correct an error that appeared in the system.

TESTIMONY OF CLYDE G. McSHAN II, DIRECTOR, NATIONAL FINANCE CENTER, DEPARTMENT OF AGRICULTURE, NEW ORLEANS, LA. ACCOMPANIED BY DEAN CROWTHER, DIRECTOR, OFFICE OF ADMINISTRATIVE SYSTEMS, USDA

Mr. McSHAN. Mr. Chairman, I am the Director of the USDA's National Finance Center. This is Dean Crowther, he is the Director of our headquarters office, Office of Administrative Systems. I do have a brief statement to make.

It is a pleasure to appear before this committee to present testimony on Internal Controls over Payment Systems operated by the National Finance Center. I have realized the importance of strong cost-effective controls against fraud and waste in Government since early in my career as an auditor with the Department's Office of the Inspector General.

At the NFC we utilize extensive safeguards to assure the continued integrity of its data and the effectiveness of its internal controls, and continually seeks ways to diminish the risk of fraud, waste, and abuse. To this end, NFC took immediate corrective actions on all issues raised by the General Accounting Office from their review of internal controls over commercial payment systems. I will briefly summarize the actions we have taken.

Specifically, we now verify all certifying officer's signatures for the miscellaneous pay system, automatically target bills for payment when due, have implemented a new gasoline ticket verification program, and established a procedure to insure the deobligation of all old inactive purchase orders.

The National Finance Center operates one of the most automated and effective payment centers in the Federal Government. Effeciencies of the center have been cited in two recent GAO audit reports. We welcome suggestions such as those developed by the GAO in order that we may immediately act to further strengthen controls in the systems we operate.

Mr. Chairman, this completes my statement and I will be pleased to answer any questions.

Senator PERCY. Thank you very much indeed. Mr. McShan, you are in charge of the payment center which received the 10 phony vouchers submitted by GAO. Is that correct?

Mr. MCSHAN. Yes. That is correct.

Senator PERCY. These were the checks that were issued. Here is a blow-up of one of the checks. At the bottom of the voucher is the signature of a USDA official who authorized payment of the check, a J. Slade, budget analyst officer. Do you have a J. Slade, budget analyst officer, on your staff? [1]

Mr. MCSHAN. No. That is not a correct name for the Department of Agriculture's certifying officer.

Senator PERCY. How is it that USDA paid a bill authorized to someone who doesn't even work at USDA?

Mr. MCSHAN. The way this system works, Mr. Chairman, is that the audit of the transaction assures a valid USDA obligation. This audit is done at various field locations who prepare this miscellaneous pay document for submission to the National Finance Center. At the National Finance Center we do a number of computer audits and checks to assure the validity of the data.

One check that we were not doing in all cases was a signature check. We were only statistically sampling those signatures. We have since implemented a control which should prevent such cases in the future since we are now verifying authenticity of all certifying officers before payment.

Senator PERCY. Is it true that only 1 percent of the signatures on the vouchers are actually checked? They only checked vouchers in the past of less than $100,000 after payment?

Mr. MCSHAN. We were checking 1 percent of all transactions under $100,000 prior to payment until November 26. November 26, we did start a 100-percent verification of certifying officers on all vouchers.

Senator PERCY. Very good. Is it true that such vouchers prior to the change in procedures accounted for $433 billion—almost half a billion dollars—or 78 percent of the payments?

Mr. MCSHAN. It probably accounted for more than that. Yes, sir.

Senator PERCY. On the same voucher at the bottom left-hand corner is a Mr. Kane who supposedly prepared this voucher. Do you have a Mr. Kane preparing vouchers at USDA?

Mr. MCSHAN. Not that I am aware of.

Senator PERCY. There is also a B. G. who audited this document. Do you know who that is?

Mr. MCSHAN. I have no idea. I am sure it is a GAO employee.

Senator PERCY. We have here the check issued to George A. Orwell. How did this check slip through the system? Why was this check paid?

Mr. MCSHAN. As I explained, the check was audited or would have been audited under our normal procedures at the field location and submitted on this document to NFC. It was paid because we were not doing a certifying officer's signature check and therefore we did not detect the fact that it was an erroneous payment.

---

[1] See p. 16.

Senator PERCY. You probably will recall that George Orwell is the author of "1984" and has been dead for many years. We hope he is not still collecting disability pay. We will find out later this morning, about that. If he were alive today, I think Mr. Orwell would be as surprised as I am that Big Brother is not watching the taxpayer's money as carefully as they should be.

The GAO reported that when they did this test, bills for up to $100,000 were paid with no more scrutiny than the bills used in this test. Can we assume a phony George Orwell could have socked USDA for $95,000 just as easily?

Mr. MCSHAN. That is correct, because of that one weakness, the lack of signature verification.

Senator PERCY. We have your assurance now that this cannot happen today under the new procedures that you have instituted?

Mr. MCSHAN. It would be detected today.

Senator PERCY. The GAO report mentions that USDA has issued 50,000 gasoline credit cards. USDA has only 30,000 vehicles and 120,000 employees which means that almost one out of every two USDA employees has a Government gasoline credit card and there are more cards than there are cars. There are so many cards issued, isn't it very difficult to control them?

Mr. MCSHAN. We feel we have adequate controls over the gasoline credit card system. There are between 45,000 and 50,000 cards today that are outstanding and active. The Department does utilize extensive leased vehicles in lieu of allowing travelers to claim mileage at 20 cents a mile whenever it is determined to be cost-effective. Whenever we do we assign a credit card for those vehicles. So we do have some 45,000 credit cards that are assigned to individual vehicles and do carry the vehicle identifying number.

Senator PERCY. How do we make sure that the car the gas is pumped into is the Government's car and not the employee's personal car?

Mr. MCSHAN. That is one of the things that sometimes is very difficult to determine. But we do have controls. The agency is responsible for assuring that they do receive a copy of the ticket after the gasoline is purchased. Also the gasoline company is only supposed to pump gas into the vehicle with a license number that coincides with the vehicle tag number shown on the individual credit card. So the credit card that goes with the vehicle is matched to the license number that is on the vehicle.

We are hoping that we would be notified if there would be any indication of fraud. This notification could come from the gas company or someone in the public through a whistleblower complaint. I personally think that with the transactions averaging about $15 it would be awfully risky for an employee to attempt to pump gas into his own vehicle.

Senator PERCY. Here is a whole box of gasoline charge receipts of this kind that we have gone through. There are literally tens of thousands of dollars' worth of charges represented. Your total charges are nearly $20 million a year. Looking at the charge forms we discovered that at least half of them do not have the car's license plate number or any other identifying information of the car that they tanked up was indeed a Government car. What keeps your 50,000 employees with gas cards from filling their own cars and charging the taxpayer? Can you possibly know if this is being done? Can't you simply refuse to make out and honor vouchers that do not have an identifying Government tag number on it? These are for fairly sizable amounts. Here is one right here for $97.15.

Mr. McSHAN. The gasoline credit card regulations, as far as I am aware, do not require them to place the vehicle tag number on the ticket itself. It is required to be placed on the credit card and the station managers are supposed to do a cross between the card and the vehicle tag. As far as I know, they do not have to place the tag number onto the ticket. It would be very difficult to refuse to pay based on that.

There is nothing in the defense fuel contract that I am aware of to require that information.

Senator PERCY. Mr. McShan, Mr. Crowther, I want to conclude by commending you for fixing the problems at the Department of Agriculture discovered by the GAO scam. I assume that this will not happen again. We appreciate your looking into the gasoline credit card problem. I presume that this is a problem faced by thousands of companies. They must have determined some way to be certain that they are not feeding gasoline into all of the personal cars of their employees. Certainly large businesses have autos and they have got to solve the problem and I hope that you can.

Mr. McSHAN. We are now sending a listing with copies of these tickets back to the field locations and asking that they do a verification. At least that is done on a sample basis.

Senator PERCY. Very good.

Senator COHEN. I am not sure I understand why, Mr. McShan, it would not be possible simply to disallow reimbursement for purchases which don't contain the tag number on the credit card slip itself.

Mr. McSHAN. As far as I know it is not a requirement that the oil company put the tag number on the individual ticket. The General Services Administration does not require that.

Senator COHEN. Why not put the responsibility upon the Government employee to see to it that the gas station attendant puts it on the credit card slip?

Mr. McSHAN. If that would be beneficial, we would. I don't know what we would be gaining because if the individual employee is placing it into his own tank, he could easily copy the tag number of the Government vehicle from the Government credit card and place that number on the ticket. So if he was doing it himself and was interested in defrauding the Government, he would simply place the correct number on the ticket.

Senator COHEN. The gas station attendant generally pumps the gas, and even if it is a self-serve pump, the gas station attendant still puts the license tag number on the credit card receipt.

Mr. McSHAN. Not always. Most of them ask you for your tag number. You can put any number. They will accept anything. They are not checking the validity of it.

Senator COHEN. According to Mr. Bowsher's testimony, internal controls at the National Finance Center and throughout the Department of Agriculture are inadequate to prevent payments from being made too early. NFC's practice, according to Mr. Bowsher, of paying invoices upon receipt, rather than assuring that payments are properly timed to reduce borrowing costs, has resulted in an additional $1.6 million in interest payments in fiscal 1981. Treasury officials, as early as 1974, recommended that NFC implement a payment-timing control mechanism. Is that correct?

Mr. McSHAN. I am not aware of the 1974 issuance, but I know that the reference is in the GAO report. We could not find the record of Treasury recommending that in 1974. The first recommendation I found of it was when the USDA cash management review team came to New Orleans in May 1978 and did recommend that it be established in the future.

Senator COHEN. Did you establish it in 1978?

Mr. McSHAN. No. We did not, sir. There were several recommendations in that report. We started moving to implement those recommendations. The first one pertained to the billing and collection system and recommended that we charge interest on the delinquent accounts. That system was built over a period of about 1½ years and it was established in March 1982. After completion of that system, we started working on the system to target payments. We did, in fact, implement in October 1982 a system which now targets payments when due.

Senator COHEN. In any event, it took you 4 years from the time of the recommendation to actually implement it?

Mr. McSHAN. Yes, sir. It did.

Senator COHEN. Why does it take so long?

Mr. McSHAN. I guess there are many priorities and these just didn't get top priority until about 1½ years ago.

Senator COHEN. In addition to making payments too early, according to Mr. Bowsher, the NFC has also been guilty of late payments. In fiscal 1981, NFC made $171.6 million in late payments, which would have resulted in about $300,000 in late payment penalties if the recently enacted Prompt Payment Act had applied. What was your total of late payments in fiscal 1982? Can you tell me?

Mr. McSHAN. Excuse me?

Senator COHEN. What was your total of late payments in fiscal 1982?

Mr. McSHAN. I would have to get that information for the record.

[The information follows:]

Based on an analysis of payment history, we estimate that the total late payments for fiscal 1982 were under $3 million.

Senator COHEN. Do you consider the penalties imposed by the Prompt Payment Act to be a sufficient deterrent to making late payments?

Mr. McSHAN. Yes, we do. We have implemented the Prompt Payment Act in connection with targeting payments in October 1982. We don't have, as far as I know, as much problem with late payments as some agencies in the Government. We have always been timely in our payments. In fact, I think the General Accounting Office, in their review, did use a period when we were having computer difficulties because we were changing computers when they were looking at late payments. Their findings are probably a little misleading. Their findings relating to early payments would have been more than the $1.6

million if they had looked at a period of normal business. We estimate a savings of between $2 million and $3 million from the implementation of targeting payments.

Senator COHEN. According to the GAO, it was $1.6 million in additional interest charges due to early payments, and $171.6 million in late payments.

Mr. McSHAN. $171,000?

Senator COHEN. No, $171 million.

Mr. McSHAN. $171 million; I am not aware of that.

Senator COHEN. You mentioned earlier about implementing a prepayment signature vertification system. Presently, you only do a random sampling. Is that right?

Mr. McSHAN. That is what we were doing on the miscellaneous pay system, a 1-percent random sample prior to November 26, 1982, when we started doing 100 percent.

Senator COHEN. The Treasury Department, I am told, uses 100 percent prepayment signature vertification. Right?

Mr. McSHAN. That is correct.

Senator COHEN. Have you gone to 100 percent?

Mr. McSHAN. We went to 100 percent signature vertification as of November 26, 1982.

Senator COHEN. Do you have an automated certifying officer's file?

Mr. McSHAN. In addition to the signature check, we are creating an automated certifying officer's file that is estimated to be created by February 1983.

Senator COHEN. Do you think that will give you more protection than exists under the present system?

Mr. McSHAN. I think it will probably be better than what we have now. We will also have an automated vendor file which give us additional checks to assure the validity of the company's name.

Senator COHEN. How would that automated certifying officer's file safeguard against forgery?

Mr. McSHAN. We will be verifying authenticity of the last name of the certifying officer as well as an identifying number that we will assign to the individual. That individual is supposed to be the only person who knows that number. That number will have to be used, along with the four digits of the last name, on each of the miscellaneous pay documents. It will be a valid number. We are also going to send back to that certifying officer a listing of all payments made for that month so they can verify it.

Senator COHEN. That is all I have, Mr. Chairman.

Senator PERCY. Thank you very much, Senator Cohen.

I want to commend both of you for the very, very prompt response of the USDA. Please pass on my commendation to the Secretary of USDA. This is a very fine example to all other Government agencies of what can be done. Would it be unreasonable to ask if you could report back to this committee by letter what has been done to try to solve the gasoline credit card problem?

Mr. McSHAN. We will be happy to.

Senator PERCY. Fine. I wish you luck—this is a tough problem, but one that needs a solution.

Mr. CROWTHER. Senator Percy, if I could mention on that gasoline credit card problem, you probably are aware that the General Services

Administration has administrative responsibility over establishing credit cards and issuing them. We have the internal control function of issuing to our individual agencies and for paying those bills but nonetheless we must operate under their guidelines.

We are certainly working with them to do everything we can to strengthen those and make certain that they are as accurate and timely as possible. But there are several agencies involved. I wasn't sure you were aware of that.

Senator Percy. Thank you.

[The prepared statement of Mr. McShan follows:]

Prepared Statement of Clyde G. McShan II

My name is Clyde G. McShan II, and I am the Director of USDA's National Finance Center. It is a pleasure to appear before this Committee to present testimony on Internal Controls over Payment Systems operated by the National Finance Center. As Director of NFC, I realize the importance of this subject matter. My awareness of the need for strong cost-effective controls to assure that fraud and waste in Government are avoided was cultivated early in my career as an auditor with the Department's Office of Inspector General.

Mr. Chairman, I have a brief statement to make that will assist in identifying the issues raised by GAO.

As the centralized finance center for the entire Department of Agriculture, the NFC processes the payroll/personnel, administrative payments, billings and collections, and accounting transactions. At present, NFC processes payments in excess of $4 billion and collects almost $200 million annually.

The NFC utilizes extensive safeguards to assure the continued integrity of its data and the effectiveness of its internal controls, and continually seeks ways to diminish the risk of fraud, waste, and abuse. To this end, NFC took immediate corrective actions on all issues raised by the General Accounting Office (GAO) from their review of internal controls over commercial payment systems. I will briefly summarize the actions we have taken.

To help avoid fraud and to improve our controls over the Miscellaneous Payments System, NFC instituted a procedure to verify the signatures on all documents against the signatures of authorized Certifying Officers. Also, each Agency Accounting Station now receives a monthly listing of payments for review and verification to assure propriety of payments.

To assure maximum interest savings to Treasury, the NFC developed an automated system which pays bills when they are due and which can add interest penalties to late payments. This system, which satisfies the requirements for sound cash management, was implemented at the beginning of this fiscal year.

In July 1982, the NFC initiated a Gasoline Ticket Verification Program to strengthen controls. Through use of statistical sampling techniques, copies of selected gasoline purchase tickets are sent to aegncies for review and verification. This new procedure is in addition to the numerous manual and automatic controls designed to prevent payment of erroneous or fraudulent claims.

The NFC established a new procedure in August 1982 to assure that old purchase orders which no longer represent legitimate obligations of USDA were removed from the open file. A semiannual review by agency officials to ascertain the validity of these obligations will be made on a continuous basis. Establishment of this procedure decreases opportunities for fraudulent claims.

The NFC operates one of the most automated and effective payment centers in the Federal Government. The efficiencies of NFC have been cited in two recent GAO audit reports which noted the fact that NFC processed transactions at a far lower cost than achieved by other centers reviewed by GAO. In addition to being conscious of the need to efficiently process transactions, NFC strives to maintain constant vigilance over its operations to assure that controls are effective in eliminating fraud, abuse, and waste. We, therefore, welcome constructive suggestions such as those developed by the GAO in order that we may immediately act to further strengthen controls in the systems we operate.

Mr. Chairman, this completes my prepared statement, and I will be pleased to answer any questions from you or members of your Committee.

Senator PERCY. Our next witness is William Gregg, Acting Commissioner, Bureau of Public Debt, Department of the Treasury. We welcome Mr. Gregg to the hearing this morning. I understand that there is some disagreement between the Treasury Department and GAO over the report on internal control weaknesses in the savings bond program, particularly over how much has been lost, stolen, or unaccounted for.

I would like to emphasize that the major purpose of this hearing is to make sure that internal controls are such that losses through fraud can be kept to an absolute minimum. According to my staff, the Treasury Department has been very candid with them about what problems exist and have pledged to make some improvements.

I am encouraged by this. We look forward to your testimony. I have read your testimony. It is very good. I have a brief meeting to hold and, Senator Cohen, if you would be good enough to take over the chair until I return, I should return quickly. If I don't get back for the first questioning, let me know when my turn for questioning will come up.

Thank you.

TESTIMONY OF WILLIAM M. GREGG, ACTING COMMISSIONER OF THE PUBLIC DEBT, DEPARTMENT OF THE TREASURY

Mr. GREGG. I appreciate this opportunity to comment on the recent draft report of the General Accounting Office having to do with the quality of controls in the U.S. savings bond program.

In 1935, the Treasury obtained congressional authority to offer a new savings-type security that would appeal primarily to individuals with small amounts to invest. The best known securities of this type are the Series E bond, which was introduced in April 1941 as a "Defense Savings Bond," and its 1980 successor, the Series EE bond.

From the standpoint of Treasury financing, the savings bond program has an extremely successful history, with its traditional features of convenience, small denominations, and safety of investment.

Savings bond sales have been a relatively stable source of funds to finance a significance portion of the public debt. A less costly means of financing than the alternative of Treasury marketable securities, savings bonds have broadened the market for Treasury debt and placed more of the debt in the hands of longer term savers.

Historically, issues and redemptions of savings bonds have been conducted on a decentralized basis. Most commercial banks, as well as other classes of financial institutions have served as issuing and paying agents. There are more than 44,000 facilities at which savings bonds are issued and about the same number at which bonds can be redeemed.

One of the keys to the continuing success of the program has been the voluntary cooperation extended by the private sector. Savings bonds are unique instruments and the program has a long and complex history. It has experienced a continuing evolvement of practices and procedures and the volume of activity has generated a massive bond processing and recordkeeping task.

In administering the program, the Treasury has, over the years, attempted to achieve certain worthy but sometimes incompatible goals—efficiency and responsiveness to investors, administrative economy and adequate operational controls.

Since the sale of the first Series E bond in 1941, the program has produced more than $281 million in funds, some 4.7 billion bonds have been sold, with nearly 9 billion related financial transactions. Total monetary losses amount to $4.8 million—0.002 percent of sales. Some $1.6 million is in the process of collection and experience indicates that more than 90 percent will be collected.

This program, like any other, has control weaknesses that should be corrected. The audit report cites several which need strengthening, such as the monitoring of bond stock inventories in the hands of agents, stock requisition practices, verification of stock balances, and physical safeguards over bond stocks.

Appropriate attention will be given to each of the recommendations. A task force is already studying alternatives for the general improvement of procedures having to do with various aspects of internal control over savings bond stocks, including each of the findings and recommendations mentioned in the audit report.

The report also cites some $8.8 million in stock credits granted to issuing agents during the period January 1980 to July 1982. This figure stems from the final balancing of Series E bond consignment accounts of issuing agents.

Stock credits of this type are granted on a conditional basis to provide that if the related bonds are ever successfully redeemed, the issuing agent will reimburse the Treasury for any monetary loss. Accordingly, little, if any, actual financial loss is anticipated.

Also, the report mentions some $22.5 million of "missing" savings bond stock. This figure represents certain unreconciled differences between two unrelated recordkeeping systems and is not directly related to accountability of agents for stock consignments.

The reconciliation process has reduced the amount to $2.7 million and has identified no financial losses applicable to this item. Furthermore, there is no indication that any of the bonds in question has been improperly issued or redeemed, or misappropriated.

Recent discussions with representatives of the General Accounting Office have dealt with several issues relative to the recording and administration of accounts receivable. It is our impression that progress has already been made toward resolution of some of the audit findings and we will continue working to clarify the remainder.

Appropriate actions have been taken or are planned to convert accounting operations which are not yet on an accrual basis and to bring accounting procedures into compliance with requirements as cited in the report. Each of the recommendations for improving debt collection practices will be studied seriously with a view toward achieving faster recoveries wherever possible.

We appreciate the many months of work that went into the preparation of the audit report and intend to continue exploring the various findings. Within the time provided for our response to the report we have been unable to complete an indepth analysis relative to each of the many issues.

The Treasury recognizes the importance of accountability and effective internal controls in its financial systems and strongly supports Federal debt collection efforts.

I will be glad to respond to your questions.

Senator **Cohen** [presiding]. Mr. Gregg, one of the GAO's recommendations for improving the accountability of the savings bond program is to create a centralized office for distributing stocks. Presently, I understand that savings bond stock is distributed through the Federal Reserve Banks with no one office exercising overall control.

Do you intend to adopt the GAO recommendation about having a centralized office?

Mr. **Gregg**. The recommendation, which essentially is for centralizing the consignment accounting responsibilities, is among a group of other related internal control recommendations which are under study right now and have been for a few months by joint Federal Reserve Bank and Bureau of Public Debt Task Force.

All aspects of that recommendation will be seriously considered and recommendations coming from the task force will be processed through the Bureau, and through higher level authorities in the Treasury Department and for their consideration.

I cannot at this time say, yes, we will, or no, we won't, because decisions of that type as we might imagine will have serious ramifications involving a great many institutions, even outside the Treasury.

Senator **Cohen**. What are some of the tradeoffs involved in adopting such a system?

Mr. **Gregg**. The centralization itself is a pretty good concept. I think it has a lot going for it. The feasibility, I think, should be examined because it will mean Treasury setting up an entirely new system of contacts, responsibilities, and oversight with respect to the 44,000 issuing outlets around the country which it does not now have; an entirely new set of relationships will have to be established and formalized and our recordkeeping systems with respect to the relationship will have to be—well, they don't exist now. We will have to create them within the Bureau whereas now they are not there at all.

Senator **Cohen**. The Department of Treasury has authority to issue substitute checks upon receipt of claims for loss, theft, or nonreceipt of checks. Is that correct?

Mr. **Gregg**. Yes, sir. I believe it does.

Senator **Cohen**. Mr. Bowsher testified earlier that the Treasury has no internal controls to safeguard against duplicate payments which result from issuance of both the original and the substitute checks.

Do you have any way of telling us or finding out how many duplicate payments are being made?

Mr. **Gregg**. No, sir. I don't. I think that is a function of the Bureau of Government Finance Operations, whereas I wouldn't be a competent witness for that Bureau.

Senator **Cohen**. That is all I have, Mr. Chairman.

Senator **Percy** [presiding]. Thank you.

Mr. Gregg, I am holding right here the Treasury Department's response, you might call it a rebuttal, to the GAO report on the savings bond program.

This is really the first time I have seen a response from a Department to the GAO as long as the original GAO report. Your letter is 19 pages long. It is quite a lengthy letter. I take it that you don't agree with the GAO finding; is that correct?

Mr. **Gregg.** I think a great many of the GAO findings we do agree with. Any finding having to do with internal control deserves serious consideration and we are not rejecting any of them out of hand, sir.

Senator **Percy.** In the response to GAO, you state and I will quote exactly, that they "grossly overstate" the losses that has occurred because only $4.8 million has been lost which is a very small fraction of 1 percent of sales. GAO says as much as $35 million may have been lost or stolen. Nonetheless, if we accept your own very small percentage figure, you are representing the loss that you estimate you have would amount to $22 million. This is a pretty good chunk of missing checks.

The amount of money stolen in bank robberies is also less than the figure that you have given. All of last year, in fact, only $54 million was stolen from all banks by all armed robberies and yet we spend a great deal of time, a great deal of attention, a great deal of money on security officers, and detention systems, trying to stop bank robberies. Would you argue that we don't need to protect ourselves from armed robberies because of the amounts involved are so relatively small? The amount of $22 million to me is not relatively small. That is an awful lot of money. Maybe in the billions that you deal with it is not much, but $22 million represents the full income tax payments for an awful lot of taxpayers in this country.

Mr. **Gregg.** No, sir. I don't pretend to assert that $4.8 million is not a significant amount. The point that we have tried to make in our dialog with the General Accounting Office has been that the $22.5 million of bonds stock, which we have been attempting to account for, does not translate immediately into an actually financial loss to the Treasury.

We don't dispute the advisability of safeguarding bond stock.

Senator **Percy.** Since 1979, just for our record, I want to indicate that Treasury has required savings bond issuing agents be charged a penalty when cash proceeds of the sales are deposited with the Government late.

Such a penalty is a vital incentive to encourage prompt payment. Any bank knows the value of good cash management. GAO reports that for 2 years you did not usually charge any penalty for late payment. About $5 million was lost; about one-tenth of which involved just one sales agent who was forgiven $435,000 in overdue interest. One agent, $435,000. What explanation can be offered for this? Is $435,000 in overdue interest from one sales agent too small an amount to worry about?

Mr. **Gregg.** No, sir. I can't tell you any more because my detailed knowledge of the GAO finding is very limited at this time. We intend to find out from them where the figure came from.

Senator **Percy.** Do you know who this agent is?

Mr. **Gregg.** No, sir.

Senator **Percy.** Do you know where he is? Do you know what he is doing with $435,000 of the taxpayer's money?

Mr. **Gregg.** No, sir.

Senator **Percy.** Can you find that out for us and let us know?

Mr. **Gregg.** Yes, sir.

Senator **Percy.** Mr. Gregg, I would say that it would be very difficult for a private sector board, and I have served on a dozen boards in my business career, including two of our largest banks in this country, to allow management to run a business with that kind of loss. If they did, they probably would be taken out of office. Do you think the taxpayers, under the kind of pressures we are under today, can stand and tolerate such looseness of procedures?

Mr. GREGG. No, sir. I think that the Secretary of the Treasury has indicated enough interest in this subject to convince me or anyone else that something will have to be done to improve the quality of our internal controls over card bond stock.

We intend to do it. We intend to follow through with the General Accounting Office with respect to the particulars of this audit report, find out as much as we can about it, and then use everything available to us to improve the situation.

Senator PERCY. I will close by quoting an old adage: If it ain't broke, don't fix it. We are getting broke. We are in debt a trillion dollars, $200 billion now as President Reagan reminds us, and getting more in debt all the time.

We have got to plug up every single hole. This committee has been plugging leaks in the dike for a long time now. We have accelerated that process a great deal. We are doing everything we conceivably can do to draw attention to these matters and yet we are dependent on the fixing being done by the Federal agencies. We appreciate your pledge. We look forward to hearing further from you as to what actually has been done to plug up some of these leaks. Thank you very much for your appearance today.

Our fourth and final witness today is Mr. James Morrison, Associate Director, Compensation Group, Office of Personnel Management, OPM.

We welcome you this morning, Mr. Morrison. You have had a longer wait than I thought you would have to have. But we are pleased that you could hear the full testimony of other witnesses. We have had a lot of discussion this morning over the control of Government funds. So far we have focused on checks being issued to nonexistent companies and control over Government bonds. OPM's problems of overpayments to retirees and other beneficiaries are somewhat different from these cases, but similarly involves shortcomings in internal control procedures. The Federal Government is owed over $3 billion in delinquent overpayments of which OPM is a small part. Most of these overpayments are not the result of fraud. They still are a big area of lost tax dollars.

We look forward very much indeed to your testimony and to the portions as to what we can do throughout the Government to correct this problem.

TESTIMONY OF JAMES W. MORRISON, JR., ASSOCIATE DIRECTOR FOR COMPENSATION, OFFICE OF PERSONNEL MANAGEMENT, ACCOMPANIED BY CLAUDIA COOLEY, DEPUTY ASSOCIATE DIRECTOR FOR COMPENSATION, OPM

Mr. MORRISON. Thank you, Mr. Chairman.

With me this morning is Claudia Cooley, Deputy Associate Director for Compensation at the Office of Personnel Management.

Ms. Cooley and I share in managing OPM's Compensation Group, with responsibility for administering the civil service pay, retirement, and insurance programs.

I have submitted a prepared statement to the subcommittee. With your permission, I would like to ask that my statement be entered into the record as submitted and I would like to simply summarize a few key points.

Senator PERCY. Without objection, the full testimony will be incorporated in the record.

Mr. MORRISON. Thank you, sir.

We are pleased to appear before you to discuss the subject of internal controls and in particular the problem of overpayments from the civil service retirement fund. First, I would like to assure this subcommittee that the Office of Personnel Management is now giving great emphasis to internal control systems. In particular, we are reviewing the range of methods and procedures used to administer benefit program payments while guarding against waste, fraud, abuse, and mismanagement.

To give you a sense of the magnitude of the area in which we are working I would like to note that in the fiscal year just ended, fiscal year 1982, we disbursed over $19 billion from the civil service retirement and disability fund through more than 21 million transactions. This single statistic underscores both the importance of effective internal controls as well as the potential for error and overpayment.

Second, I understand that you are especially interested today in hearing about our response to the recently issued draft report by the GAO on the problem of overpayments from the civil service retirement system. Basically the General Accounting Office in the draft report issued October 16, 1982, found that: One, too little emphasis was placed on minimizing benefit payments to individuals no longer eligible, such as deceased beneficiaries; two, overpayments were not accurately recorded and reported once identified; and three, prompt, aggressive action was not taken to recover overpayments.

GAO made a number of recommendations and our responses to those recommendations are addressed in my prepared statement. I would like to note that GAO's review was conducted over a year ago. Thus we have initiated major improvements in those areas covered by the report which may not be reflected fully in the findings.

Nonetheless, we have found the draft report very, very useful and will continue to refer to it in our efforts to make improvements.

Finally, I would like to stress to the subcommittee that we realize a lot of additional work is needed before we can be satisfied with our controls to minimize, detect, and collect overpayments. Let me assure you that increased emphasis will be placed on making systemic changes in our work processes and procedures to greatly reduce the creation of overpayments in the first place. At the same time, we will step up our debt collection activities and in this regard, Mr. Chairman, I would like to thank you for your effort in giving us an additional tool, through the leverage provided in the Debt Collection Act of 1982, to help us bring the problem of overpayments under control.

We would be happy to answer any questions you or Senator Cohen have.

Senator PERCY. Thank you very much indeed. Going back over the GAO report, they reported that OPM overpaid about $100 million to retired Federal civilian employees and their survivors in 1977 to 1980. As of 1980, this group owed about $27 million, the rest being offset against other payments.

OPM lost millions of dollars because it did little to identify deceased beneficiaries. In 1980 alone, over $9.7 million was overpaid because OPM did not know of their death. For example, OPM kept paying a widow for 8 years after her death in 1971, totaling $11,395. OPM has now begun matching the rolls of retirees with Social Security files of deceased persons. This has greatly helped to relieve that problem.

There is a classic case of the left hand not knowing what the right hand is doing. GAO found the dual payments were being made by both OPM and the Department of Labor to several dozen persons on disability. An employee on disability can receive an annuity from other agencies but it certainly is not supposed to be receiving payments from both. In one case, the beneficiary was receiving payments from both agencies for 7 years.

OPM's debt collection efforts to collect overpayments has not been good in the past. GAO found it took OPM an average of almost 5 months to send the first bill after disability overpayment was discovered. Few, if any, deliberate fraud schemes have been prosecuted.

I have just two questions for you and then I would like to defer to Senator Cohen for the balance and also to discuss the subject of computer matching which he is holding a hearing on this Wednesday.

Mr. Morrison, the chart in front of us gives the history of a rather startling case, one of an overpayment. In this case the Federal retiree's widow died in 1971, yet they keep sending checks for 8 years. How could the Government remain in the dark for so long about this person's death. Certainly the Social Security Administration, the Post Office, or at least the IRS knew that she was dead?

Mr. MORRISON. Apparently, in this particular case, the granddaughter continued to cash those checks and we have many cases where we have representative payees and third party people handling the accounts. At that point in time, we were not doing the matching of death records with other programs as we are doing now. Of course, the matchings that we now do should go a long way to rectify that kind of situation and to give us much quicker discovery. We do rely on the families, as Senator Cohen mentioned, as a primary means of notifying us. But we also rely on the Post Office, or banks if individuals are receiving their annuities through direct payments to a bank, and on a host of other sources.

In order to detect unreported deaths, we do a combination of things such as matching with other Federal programs, matching with private sector firms, and will be continuing our death match with social security, at least annually. We think through those combinations of mechanisms we will get a much better handle on that kind of situation.

Senator PERCY. I did mention the fact that GAO's report indicated that disability beneficiaries sometimes are receiving disability checks from both OPM and the Department of Labor. They are eligible for one or the other, but not both. In one case a disabled employee got checks from both agencies for 7 years, and was overpaid by almost $20,000. Certainly they are deserving of their fair share but not a $20,000 bonus as was paid in this case. Did it ever occur to your Department during this period that since another Government agency has the same problem that yours does, that it might be a good idea to make sure that you are not both paying the same people.

Mr. MORRISON. It certainly has occurred to us now. I can't speak directly to the prior periods, but we are now doing, or we have done, a 10-percent match with the Office of Workers' Compensation programs to get some sense of the cost and benefits. We are proceeding to do a full match with their rolls. So we hope that we will have dealt with that problem. I would note that there is one situation in which an individual could legally receive two checks. If the Office of Workers' Compensation programs has put them on a scheduled payment, that means there is a period of time for which they are, depending upon the nature of their disabling condition, actually supposed to receive two chacks, one from workers' compensation and one from us. So we have to flag those in addition to those who are just entitled to one check only.

Senator PERCY. Thank you very much.

Senator Cohen?

Senator COHEN. Just a couple of questions, Mr. Morrison. In response to GAO's recommendations, you stated that OPM had conducted a match of its files with those of a private company that supplied death records. Is that right?

Mr. MORRISON. Yes.

Senator COHEN. How many cases of overpayments were uncovered through this match?

Mr. MORRISON. That is going on now I believe.

Ms. COOLEY. Yes. That is a match that was recently instituted and also one that we have folded into our second match that we are now doing with the Social Security Administration. We have decided to do the match that we initiated in 1981, with Social Security, on an ongoing basis because it did provide so much in the way of the cost benefit ratio for us in finding out which beneficiaries are no longer entitled to receive checks. The additional death records which are being made available through this private source are being folded into that effort and we are currently in the process of checking those. We should have the results of both of those in several months.

Senator COHEN. We would appreciate it if you would supply the committee with the results, not only of the number of overpayments but the money that is involved as well.

Why did you use the death records of a private company to check the overpayments?

Ms. COOLEY. We had been looking for sources of information on death records and although the Social Security Administration file check was certainly very helpful to us, we are now searching for other ways to identify in a systematic way information on reported deaths. This is a source that we heard about and that we wanted to try out. There is no cost to us involved in this in terms of making that source available to us.

So we want to see if it does have some payoff for us.

Senator COHEN. Is there any charge to the Federal Government for supplying you that information?

Ms. COOLEY. We are supplying information. So it is working out to our mutual benefit.

Senator COHEN. What information are you supplying them?

Ms. COOLEY. The information we have on the death records that we have.

Senator COHEN. I see. So you are exchanging whatever you have, which appears to be minimal, from what I can determine, in return for what they have. Is that the exchange?

Mr. MORRISON. Yes, sir.

Senator COHEN. You might consider, and I don't say this facetiously, checking with all the congressional offices. We have offices all over the country that keep a very close look out for people who die for several reasons. Most importantly, we usually send out a note of condolence, but No. 2, we like to take their names off our mailing lists.

So we look very closely at the obituaries as a matter of fact. If you don't decide to go to a central system for determining those who have died, I think you had better expand your sources.

Mr. MORRISON. We agree with you, Senator. We will certainly pursue that avenue.

Senator COHEN. Do you intend to conduct computer matches with the Department of Labor files as well?

Mr. MORRISON. Yes, sir. We anticipate that the benefit-cost ratio will be such that it will be worthwhile to do that on a continuing basis.

Senator COHEN. Have you made any sort of a benefit-cost analysis to date?

Mr. MORRISON. On the first match with social security I think we had a very high ratio, about 110 to 1. That is clearly worth doing. On the Department of Labor from the statistical sample, I don't think we have actual benefit-cost data developed as yet.

Ms. COOLEY. We did find on the 10-percent sample in matching with OWCP that we identified 31 dual payments that should not have been made. And as Mr. Morrison mentioned, we are now in the process of doing the full match and we are expecting about 500 dual payment cases to come to our attention through that. If that is the case, it will certainly be cost effective and something that we will want to continue.

Senator COHEN. That is all I have, Mr. Chairman.

Senator PERCY. Thank you very much. We certainly appreciate the indication we have had from Mr. Morrison that corrective action is being taken.

[Mr. Morrison's prepared statement follows:]

STATEMENT OF JAMES W. MORRISON, JR., ASSOCIATE DIRECTOR FOR COMPENSATION, OFFICE OF PERSONNEL MANAGEMENT

Mr. Chairman and members of the subcommittee: Thank you for inviting me here today to discuss the subject of internal controls. I understand that you are interested particularly in hearing from the Office of Personnel Management (OPM) about the problem of overpayments from the civil service retirement system.

I am accompanied by Claudia Cooley, the Deputy Associate Director for Compensation at OPM. Ms. Cooley and I share overall responsibility for managing OPM's compensation group which includes making retirement entitlement decisions and administering the civil service retirement and disability fund.

Before discussing the specific problems associated with overpayments under the civil service retirement system, I would like to put our approach to resolving these problems in perspective.

Since the beginning of the Reagan administration, one of OPM's highest priorities has been to strengthen our internal control systems. We have conducted a comprehensive review of the internal controls within the civil service retirement system and the other benefit programs for which we are responsible (life and health insurance) as well as the trust funds and appropriation accounts associated with them. Our approach has been to review the organiztaion and all of the methods and measures used to administer these benefit programs and to safeguard the resources, assure the accuracy and reliability of information, assure adherence to applicable laws, regulations, and policies, and to promote operational economy and efficiency.

An important step which underscores the priority given to internal controls has been the establishment of a steering committee of key managers to direct and oversee the implementation of a series of internal control initiatives.

It is from this perspective that I would like first to discuss the recommendations made by the General Accounting Office in its recently issued draft report entitled "Actions Needed to Reduce, Account for, and Collect Substantial Overpayments to Federal Retirees." As the subcommittee knows, this report portrays the problems the civil service retirement system has had in this area, and recommends a number of corrective actions. A substantial period of time has lapsed since GAO conducted their review and, therefore, the report does not fully reflect current conditions and OPM initiatives. I understand that this report, and our response, are of primary interest to the subcommittee.

RESPONSE TO GAO

Minimizing overpayments

GAO has recommended that we consider using various Federal data sources on deaths in order to identify beneficiaries who have died and for whom benefit checks should therefore be stopped.

We have in fact already implemented this recommendation. In May 1981, we conducted a computer match against death records of the Social Security Administration, resulting in the termination of 684 annuities, and stopping $306,000 per month in overpayments. This match has the potential to produce $110 for every dollar spent. A second social security match is nearing completion, and we will be continuing these annual matches in the future. We are also testing the use of a private sector source of death records to see if this too will be cost-effective.

GAO also recommended that we consider whether it would be worthwhile to require our annuitants to furnish proof of their existence from time to time. Earlier this year, we conducted an address and signature verification project to monitor what we identified as "high risk" accounts—elderly annuitants whose annuities were being paid directly to financial institutions by electronic funds transfer. This experiment identified five unreported deaths. While the benefits exceeded the costs, the payoff is relatively low compared to other matches.

GAO recommended that we identify dual disability beneficiaries by matching data with the Labor Department's worker's compensation rolls. Here again, we have made a good start. Last December, we completed a 10 percent sample match with the workers' compensation rolls, and this led to a full computer match being conducted by the Labor Department this year. We estimate this may lead to the identification of more than 500 overpayments.

Another cause of overpayments has been that employing agencies have in some cases certified to OPM that more retirement deductions have been taken from an employee's salary than is in fact the case, leading us to refund to the employee more than he is actually due when he separates from the government and applies for a refund of his retirement contributions. GAO recommended that we identify the agencies where this is a problem, and call it to the attention of appropriate officials in the responsible agencies so they can take corrective actions.

GAO recommended that we develop a data system that would enable us to identify the reasons overpayments occur. We would certainly agree that improvements are needed in this area, at least with respect to what we call off-roll overpayments, that is overpayments owed by individuals who are not current annuitants. We have conducted inventories of the largest overpayments, and have tried to identify and correct the most frequent problems. We have also recently purchased a software package that will serve as the basis for an automated debt management system that will routinely provide a wide variety of statistical information.

Recording and reporting overpayments

GAO recommended that OPM develop an accounting system that will enable us to properly identify and record overpayments and collections, and that we more closely monitor our workloads and work performance to ensure that backlogs are reduced. We have taken several actions to make improvements in this area. Perhaps the most important will be our new automated debt management system which will revolutionize our tracking of overpayments and their handling.

We are taking a number of additional steps to try to detect overpayments. We now have 15 improvement projects underway, such as automated records matches with social security and the Veterans Administration, to monitor the accuracy of payments and the eligibility of recipients. These projects have already saved millions of dollars. We are also making substantial, continuing improvements in our internal procedures and workflow to eliminate the causes of overpayments and improve the handling of overpayments when they do occur.

GAO has also recommended that we establish an allowance for uncollectable accounts. We did, in fact, take this action beginning with fiscal year 1981, and we will continue to use such an allowance.

Collection of overpayments

GAO has recommended that we develop a debt collection system to enable us to bill debtors promptly, identify delinquent accounts, follow up with the Treasury in their efforts to reclaim overpayments from receiving financial institutions, and charge interest on delinquent accounts.

We have made substantial improvements in this area—for instance, we now ask Treasury to recover overpayments within 30 days after we learn of an annuitant's death, rather than the 193-day delay found when GAO prepared their report—but the key to solving our problems in taking timely collection action is the replacement of our present, mostly manual system with our new automated debt management system. When this system is fully operational, we will have automated billing and follow-up on a timely basis, and this, together with related procedural and workflow changes, will clearly enable us to meet the timeliness elements of the Federal claims collection standards. This new automated system will also have the capability to calculate and apply interest and will even enable us to maange our debt collection activities closely enough so that we could use private collection agencies and commercial credit agencies where that would be beneficial.

Finally, GAO has recommended that we conduct overpayment hearings when requested. Frankly, this is a very difficult issue. Hearings are very expensive to conduct, particularly in view of the travel expenses involved, and in some cases the cost of the hearings would certainly exceed the potential collection. For this reason, OPM has determined that the resources available should be directed first toward avoiding future overpayments rather than going through an expensive hearing procedure for the relatively small number of past overpayments where hearings have been requested. However, we recognize the need to proceed in this area. We are working to clarify our existing legal responsibilities, in conjunction with reviewing the implications of the new debt collection act. We expect to resolve these matters soon and deal with the problem of outstanding requests for hearings on overpayments.

Despite the lapsed time between the on-site audit and the issuance of the draft report, GAO's review has been helpful. Many of GAO's findings are consistent with our indpendent analysis of risks and with our assessments of vulnerability to overpayments or to fraud, waste, abuse, and mismanagement. OPM's response to the draft GAO report clearly demonstrates that many improvements have been made and others are underway. But a lot remains to be accomplished.

ADDITIONAL AREAS OF EMPHASIS

One measure of the dimension of the overpayment problem is the dollar value of accounts receivable. The GAO draft report estimated the value of accounts receivable to be $27 million as of September 30, 1980. We calculate the amount to be $56 million as of September 30, 1982. Ironically, much of this increase is attributable to better accounting and more vigorous detection of overpayments. The recently completed "death match" with social security files, which added more than $8 million to the overpayment totals, illustrates this point. Nonetheless, our ultimate goal is to reduce the absolute dollar value of overpayments, even though current totals are a fraction—less than three tenths of 1 percent—of the billions of dollars correctly paid out in annuities annually.

During fiscal year 1983, we will intensify our efforts to increase the rate of overpayment collections. Emphasis will be placed on making systemic changes in our work processes and procedures to minimize the creation of overpayments in the first place. Many overpayments are the result of such simple things as the absence of current documents in the files due to processing backlogs, or failure to establish and monitor suspense dates for effecting changes to on-going annuities. We will, of course, make improvements in correcting these simple causes as we continue to make strides in resolving the most complex causes of overpayments.

We also expect to be very active in assisting other agencies in identifying and collecting overpayments. For example, the subcommittee chairman's announcement, together with Secretary Bell, of the Department of Education's efforts to collect on defaulted loans means that OPM will be involved in recovering these debts to the Government owed by Federal retirees.

As I mentioned earlier, we are analyzing the implications of the new Debt Collection Act on our operations. As this subcommittee is aware, that act, in general, will strengthen the capacity of the Federal Government to collect its debts. The act has specific provisions regarding approaches and requirements for the use of salary offset authority, effecting administrative offsets, and determining interest and penalties on indebtedness. It also provides for the use of consumer collection agencies. While we know that some modifications to our automated data systems, perhaps major modifications, will have to be made to fully implement the Debt Collection Act, we are confident that this additional tool will prove to be of great assistance in bringing the problems of overpayments under control.

Thank you very much. We would be pleased to answer any questions you may have.

Senator PERCY. Senator Cohen, we thank you for your active participation in this field. We commend you and OPM for what is being done. I am sure that it is a sign of this administration's commitment to reducing waste and fraud in Government programs.

There is one area in which some improvement can be made, and that is debt collection. We don't have the time to get into this area this morning, but we are finding that this is one of the most lucrative possible areas that we have discovered.

I indicated at the outset of this hearing that for 16 years I have taken upon myself as one of the few businessmen and former heads of a multinational corporation in the Senate, to try to concentrate heavily upon getting business-like procedures and practices into government. It has been one of the most rewarding aspects of any entire senatorial experience. It is the one thing you can really see and measure. You can get a bottom line on it. For a rough estimate of the savings that we have gotten, take debt collection, take this kind of thing, take the asset management and sale of unneeded facilities in the Federal Government—already, I compute the net savings to the taxpayers of this country has exceeded the gross sales of my former company in the 75-year history that it has been in business.

So when someone says to me, "don't you miss business," yes, some days I do. I will have to admit that the frustrations are great down here. The procedures are slow sometimes. But when you total up what can be done, a great deal is accomplished.

I want to thank every one of our witnesses for being with us.

Mr. Cronin, I want to thank you very much indeed for staying as the GAO representative through the entire hearing. It must be very satisfying to see some of the work that you have done come to fruition. I wish to compliment you and thank all of the people in GAO that have worked with you on this. I am going to keep the record open for an additional 30 days to incorporate any additional comments which any of our witnesses would have or anyone might wish to add. If there is no further business, the hearings are adjourned.

[Whereupon, at 11:50 a.m., the hearing was adjourned, subject to the call of the Chair.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Cover Summary and Digest of GAO Report "The
Bureau of Public Debt Should Better Control
Savings Bond Sales and Redemptions"

Cover Summary

The report discusses problems with the Bureau's efforts to account for savings bond sales and redemptions that unnecessarily increase operating costs and lead to sizable losses. It offers suggestions for improving system controls in areas highly vulnerable to abuse and losses.

DIGEST

The savings bond program has been used for years to finance a significant portion of the public debt and, as of January 1982, was financing about $67.6 billion of the amount. The program has permitted financing at interest rates lower than those prevailing for other types of private and public borrowing, and it is the Bureau of Public Debt's responsibility to ensure the attainment of the maximum advantages under the program. This report discusses problems persisting in the control of negotiable savings bond stocks, management actions contributing to inefficiencies and abuses by agents selling and redeeming bonds, and accounting practices preventing full disclosure of control problems and related losses, which are running in the millions annually.

BOND STOCKS CONTROL PROBLEMS RESULT IN UNRECOGNIZED LOSSES

Savings bonds are sold by 44,000 issuing agents at banks and other financial institutions from preprinted blank stocks provided to them through Federal Reserve banks and branches. The stocks can be easily converted to negotiable securities by anyone possessing them. As any fraudulent or unauthorized issues of bonds cannot be established until after they are redeemed by the Bureau, the blank stocks should be controlled in the same manner as currency. Yet, GAO found that:

—The Federal Reserve banks and branches have not followed recognized control and accounting procedures for the savings bond stocks distributed to issuing agents on a consignment basis, even though they are paid to do this. Consequently, the agents have been provided with excessive stocks, when they had more than enough to support their sales activities, and have reported at least $8.8 million in bond stock losses and thefts, primarily in a recent 2 -year period. GAO believes these shortages are a direct result of poor controls being exercised over the stocks by the banks and branches. (See p. 6.)

—The Bureau also has not properly accounted for stocks issued to Federal Reserve banks and branches for distribution to agents or properly investigated the large amounts of stock shortages reported by agents before granting them relief. As a result, a 30-month effort was needed to attempt to locate all unissued Series E savings bond stocks upon their recall, when the Government changed to the Series EE bonds. Over $22.5 million of those bonds were unaccounted for as of June 1982, and relief from accountability had been granted to some agents for reported bond losses or thefts that were later found to have been sold by agents getting relief. (See p. 10.)

—Several opportunities exist to improve the accountability over blank stock while reducing costs that the Bureau has not fully explored. Among these would be the centralization of bond stock control at a single Bureau office and the conversion to paper-type bonds so that transaction handling would be simplified. (See p. 12.)

The bond stock control problems have persisted for years and GAO believes that, if allowed to continue, large shortages of Series EE savings bond stock will develop.

MANAGEMENT ACTIONS CONTRIBUTE TO INEFFICIENCIES AND ABUSES

GAO noted that a major concern of Bureau management has been to keep issuing agents from leaving the program. This concern has apparently influenced a number of decisions that contributed to abuses and practices leading to stock, as well as monetary, losses.

As an example, the Bureau delayed a program to assess penalty interest in those cases where issuing agents did not remit bond sale proceeds promptly, even though such assessments were necessary to prevent agents from receiving dual compensation for services. Even after the program was implemented, the Bureau waived assessments without justifications and has not required the Federal Reserve banks and branches to collect the interest when appropriate. GAO estimates that about $5 million in revenue has been lost over a 3-year period by the Bureau's actions.

The Bureau has also followed a practice that permits issuing agents to hold money from savings bond sales with little or no interest being charged. It involves cases where savings bonds are sold and sales proceeds are not remitted by agents by the time the bonds are redeemed. In such cases, the Bureau collects the bond sales price from the issuing agents but not the interest it paid in redemption when the amount is less than $100. While GAO could establish only a small amount of related losses, it believes the process could result in large losses if widely known, and sees no reason for the Bureau to continue the practice.

The Bureau recently relieved an agent from liability for redeeming bond stocks stolen by one of the agent's employees that could eventually total about $188,000. The relief was granted without any apparent authority and on the basis that issuing agents should be held liable for losses or thefts only when it could be proven they were negligent. The Bureau concluded that the agent in question was not negligent, even though it stored the blank bonds in a place easily accessible to the employee. GAO is concerned that the Bureau's rationale, if allowed to become a precedent in granting relief, would make it difficult to hold issuing agents liable for future monetary losses.

The Bureau has been particularly ineffective in its efforts to control amounts owed it by others. It has not promptly recorded the amounts as receivables and has not taken required actions to ensure prompt collection of amounts recognized. As an example, it did not properly age receivables or recognize those of doubtful collectibility. GAO also noted that penalty interest had not been assessed on delinquent amounts owed by debtors to encourage payment, and that the Bureau had asked the Department of the Treasury to be exempt from the requirement to assess penalties. The reasoning behind the request was that the assessments would be detrimental to the savings bond program, since it would adversely impact on the goodwill of issuing agents.

Finally, the Bureau follows a practice of paying its agents for services on the basis of transactions handled, without regard to the quality of work. This has led to a condition where agents make a considerable number of errors in selling and redeeming savings bonds and preparing related documents. GAO estimates that the Bureau spends around $530,000 annually to correct the errors and believes the agents should bear this additional cost.

ACCOUNTING PRACTICES PREVENT FULL DISCLOSURE OF OPERATING RESULTS

Federal agencies' accounting activities should be carried out consistent with applicable law and recognized procedures designed to protect the Government's interest and to provide data needed by managers and external control activities, such as the Congress. GAO found several Bureau accounting practices not consistent with laws and recognized procedures that prevented full disclosure of control problems and related losses. For example:

--Receivables have not been established for amounts owed the Bureau from late payments of sales proceeds and redemptions of bonds for which sales proceeds were not received, even though this cash based accounting has been widely recognized as being inadequate and its use precluded by law. (See p.)

--Significant amounts of receivables and payables were being recorded in the same account; an unacceptable practice that distorts the agency's financial position. (See p. .)

--All monetary losses have been charged to a revolving-type fund that does not have sufficient appropriations to cover losses already incurred or anticipated, and the Congress has apparently not been fully advised of the extent the fund is used for such purposes. (See p. .)

--Required reports on losses have not been submitted to GAO so that it can settle the Bureau's accounts in which shortages develop, as required by law. (See p. .)

—Amounts owed to bond holders for underpayments have been provided to paying agents without documents being received to show the Government's related liability has been settled. (See p. .)

The Bureau recognizes the inadequacies of some of its practices and has agreed to make some system changes. As an example, it agreed to establish separate accounts for the receivables and payables from correcting agents' errors. These and other actions to eliminate deficient practices were not completed by the end of GAO's review.

RECOMMENDATIONS

GAO believes that positive actions must be taken to improve accountability and control over savings bond activities. To do this, it recommends the Secretary of Treasury:

--Make system changes providing opportunities for improved control over savings bond stocks, such as the use of a centralized office to control and distribute stocks, and ensure that the office enforces recognized procedures for controlling stocks in the hands of issuing agents.

—Enforce use of recognized procedures to collect amounts owed the Bureau, such as assessing penalties when appropriate, and hold issuing agents liable for losses or thefts of bond stocks by their employees that the Government has to redeem.

—Change accounting practices to conform to applicable laws and recognized procedures by requiring the use of accrual accounting, separate accounts to be established for receivables and payables, and providing money for underpayment to the parties entitled to it.

The Secretary should also fully disclose to the Congress the extent of losses from the savings bond program that is being charged to a revolving-type fund, which is officially called the Payment of Government Losses in Shipment Fund. The Congress should also be provided with estimates of additional funds that will be needed to cover losses already incurred and anticipated in the savings bond program.

Cover Summary and Digest of GAO Report "Action Needed To Reduce, Account for, and Collect Substantial Overpayments to Federal Retirees"

Cover Summary

The Office of Personnel Management (OPM) overpaid about $100 million to retired Federal civilian employees and their survivors during the 3 years ending September 30, 1980.

GAO found that (1) little emphasis was placed on preventing and minimizing benefit payments to individuals no longer eligible such as deceased beneficiaries; (2) overpayments were not accurately recorded and reported, once identified; and (3) prompt, aggressive action was not taken to recover overpayments.

GAO recommends that OPM establish adequate internal controls to prevent, account for, and collect overpayments from the Civil Service Retirement Disability Fund.

DIGEST

During the 3 years ending September 30, 1980, the Office of Personnel Management (OPM) overpaid about $100 million to retired Federal civilian employees and their survivors.

As of September 30, 1980, this group owed OPM about $27 million. This was an increase of $19.1 million since September 30, 1977. GAO undertook this review to determine whether OPM had adequate internal controls to prevent, account for, and collect overpayments made from the Civil Service Retirement and Disability Fund.

Most OPM overpayments occurred when beneficiaries underwent a status change that either eliminated their entitlement to benefits or reduced the amount payable to them. OPM relied mostly on the beneficiary or his or her estate to report a change in status. Substantial overpayments occurred because beneficiaries did not report status changes or OPM did not process changes promptly. (See p. .)

GREATER EMPHASIS ON MINIMIZING OVERPAYMENTS

Greater control over payments to beneficiaries might have avoided millions of dollars in overpayments as well as reduced the time and cost to recover such overpayments. GAO found that:

--Deceased beneficiaries were not promptly identified and taken off the annuity rolls. Until recently, OPM did little to identify deceased beneficiaries. It relied mostly on the beneficiary's family, bank, postmaster, and the Department of the Treasury for death notifications. (See p. .)

--Dual payments were made to disability annuitants. OPM did little to identify individuals receiving a civil service retirement annuity and Federal Employees Compensation Act benefits in order to ensure that overpayments were not being made to disability annuitants. It also did not promptly stop payments to disability annuitants who elected to receive Federal Employees Compensation Act benefits rather than a civil service retirement annuity. (See p. .)

--Erroneous retirement data from other Federal agencies contributed to overpayments from the retirement fund. Some of these overpayments might not have occurred had OPM informed these agency officials to take corrective action. (See p.

--Overpayment data was not compiled by type of occurrence. Thus, OPM did not know the magnitude of certain types of overpayments and how to best utilize limited resources. (See p. .)

RECORDING AND REPORTING OF OVERPAYMENTS NEED IMPROVEMENT

OPM did a poor job of accounting for overpayments. Millions of dollars were inaccurately recorded and reported. For example, GAO matched the automated record files of OPM and the Department of the Treasury as of March 13, 1981, and found that OPM might have overstated overpayments to deceased beneficiaries by as much as $12 million because it did not maintain complete and accurate account records of overpayments actually made. (See p. .) Also, based on the work of OPM's quality assurance staff, GAO estimates that OPM might have understated overpayments by about $5.9 million during the 3 years ending December 31, 1980, because it did not identify all overpayments. (See p. .)

OPM had to estimate the amount of overpayments arising from the deaths of annuitants and survivor annuitants because it did not know the dollar value of these overpayments. For fiscal 1980, it estimated $7.3 million as the amount outstanding as of September 30, 1980. However, the accuracy of this amount is questionable due to the estimating techniques used. (See p. .)

Some overpayments arising from the death of annuitants and survivor annuitants were accounted for twice. This happened because two separate organizational units within OPM were assigned responsibility for recording and reporting these overpayments. (See p. .)

OPM did not establish an allowance for uncollectible debts. Furthermore, uncollectible debts were not written off as soon as they should have been. As a result, expected losses were not fully disclosed. (See p. .)

GAO believes that accurate accounting is essential if OPM is to manage the control and reporting of overpayments and provide the necessary information to maximize the collection of overpayments. Because OPM does not have accurate accounting records for the overpayments, collection is not aggressively pursued. Ultimately, this will allow the loss of millions of dollars that could be collected.

MORE AGGRESSIVE APPROACHES NEEDED FOR RECOVERY

Once overpayments occurred, OPM did not take prompt, aggressive action to seek recovery nor did it adhere to prescribed collection procedures. As a result, millions of dollars worth of overpayments have gone uncollected for long periods of time.

Under the Federal Claims Collection Act of 1966 and implementing Joint Standards promulgated by the Attorney General and the Comptroller General, administrative agencies are primarily responsible for collecting claims arising out of their activities. The heads of Federal agencies or their designees are required to take prompt and aggressive action in recovering overpayments.

Billing and collection practices for overpayment at OPM were not in accordance with the Federal Claims Collection Standards and were frequently not effective. The following management practices contributed to the $26.7 million in outstanding overpayments as of September 30, 1980.

--Overpayments were not promptly billed. (See p. .)

--Delinquent accounts were not always identified. (See p. .)

--Followup collection actions frequently were not made promptly. (See p. .)

--Requests for investigation and writeoffs of uncollectible accounts were frequently not processed. (See p. .)

Also, debtors had little incentive to make prompt payments because OPM did not charge interest on delinquent accounts. (See p. .)

CONCLUSIONS

The amount of overpayments being made by OPM to recipients of retirement, survivor, and disability benefits is high and constantly rising. The ultimate remedy is, of course, to stop making overpayments. But given certain changes in benefit status, such as death, there will always be some overpayments. Nevertheless, OPM needs to minimize the occurrence of overpayments and recoup as many as possible.

RECOMMENDATIONS

To correct the deficiencies noted, GAO recommends that the Director, Office of Personnel Management

- --take appropriate action to minimize the amounts of overpayments (see p.),
- --accurately record and report all overpayments from the retirement fund and their collection (see p.), and
- --develop a debt collection system that enables OPM to bill debtors promptly, identify all delinquent accounts, send out timely collection letters, process requests for investigations and writeoffs of uncollectible accounts, and charge interest on delinquent accounts (see p.).

United States
Office of
Personnel Management
Washington, D.C. 20415

In Reply Refer To
Your Reference

NOV 16 1982

Honorable Charles A. Bowsher
Comptroller General
General Accounting Office
Washington, DC 20548

Dear Mr. Bowsher:

We have reviewed your draft report entitled "Action Needed To Reduce, Account for, and Collect Substantial Overpayments to Federal Retirees" and agree with your audit's basic findings that greater emphasis was needed on minimizing overpayments; improvements were needed in recording and reporting overpayments; and finally, more aggressive approaches were needed for recovery of overpayments.

A substantial period of time has lapsed since you conducted your audit. Therefore, much of the data in the draft report is outdated and does not reflect current conditions because OPM has made major improvements in areas covered by your report's basic findings. Following are comments on specific aspects of your report.

GREATER EMPHASIS WAS NEEDED ON MINIMIZING OVERPAYMENTS

Recommendation

OPM should consider using the death data maintained by other Federal agencies to identify deceased beneficiaries and should determine whether it is cost beneficial to require beneficiaries to periodically furnish proof of their existence.

Response

Recognizing the potential benefits of automated record matches for controlling and minimizing overpayments to deceased beneficiaries, we conducted our first such effort in April, 1981. This match compared automated records of our annuity roll with death records of the Social Security Administration. The results identified 682 accounts which were dropped from payment status involving $306,000 in monthly benefits. Approximately 8.4 million dollars in overpayments were stopped as a result of this match. We began work on the second Social Security Administration record match in March, 1982, and plan to conduct these matches on an annual basis. Also, as a result of an unsolicited proposal from ATL, Incorporated, we began, in June, 1982, to conduct a match with ATL's death record file (3.6 million records). Final results on this match are not yet available.

In March, 1982, we also conducted an address/signature verification project as a means of monitoring high risk accounts (elderly annuitants whose annuities were being paid directly to financial organizations under the EFT program). This ongoing initiative, which is similar in approach to your second recommendation in this area, resulted in the identification of 4 unreported deaths. We are now developing cost/benefit information to determine if this effort should be continued on a recurring basis.

Recommendation

OPM should identify ineligible disability beneficiaries by matching data with the Department of Labor, and flagging those individuals with schedule awards.

Response

In December, 1981, we completed our first statistical match of a 10% sample of Office of Workers' Compensation Programs (OWCP) records with the entire OPM annuity roll. The match identified 31 possible dual payments. Based upon the match results, the Department of Labor began a full match with our automated annuity roll records on October 21, 1982. Twenty-seven overpayments were discovered from a survey of 90 matches of OWCP claims paid in District 25 (Washington Area) alone. From this survey it has been projected that there may be a total of 540 overpayments in the grand total of 1,800 matches.

Recommendation

OPM should identify Federal agencies that submit erroneous certifications of retirement deductions, and inform officials at these agencies of the deficiencies in order that they may take corrective action.

Response

As of October 31, 1982, we have 864 outstanding overpayments on hand resulting from overcertifications. Overall these overpayments represent a relatively small dollar amount in that they average less than $150 per case. OPM management officials have repeatedly called the problem to the attention of top management officials at Postal Service Headquarters in Washington, DC. The Postal Service advises that the problem is being reviewed. Because OPM has no enforcement authority, little can be done to eliminate the overcertifications. We are considering seeking legislation which would enable OPM to charge agencies with the losses that result from overcertifications.

Recommendation

OPM should develop data that classifies overpayments by type of occurrence for use in identifying areas needing improvement.

Response

OPM has, for several years, maintained data on overpayments by category and amount for on-roll overpayments. Similar data with respect to off-roll overpayments has not been maintained in the past because the manual, clerical process involved in doing this was overburdensome. However, we have conducted inventories of all off-roll overpayments exceeding $5,000, and have categorized the causes of the overpayments associated with these off-roll cases. An initiative is now underway to eliminate, to the maximum extent possible, the causes of overpayments with the highest frequency, e.g. annuity adjustments resulting from student-child benefit eligibility determinations, annuity reductions to eliminate post-1956 military service. In addition, OPM recently purchased a software package which will serve as the base for a new debt management system at OPM. The automated data base of this system will enable us to maintain statistical data on overpayments. Therefore, information on the frequency, dollar value, and type of overpayment, will be available on a routine basis.

IMPROVEMENTS WERE NEEDED IN RECORDING AND REPORTING OVERPAYMENTS

Recommendation

OPM should develop an accounting system that enables overpayments to be properly identified and accurately recorded.

Response

We recognized the weaknesses you identified and the need for a more reliable system to account for overpayments. Since the date of GAO's review, OPM has taken several actions to improve the accountability of overpayments. OPM is currently improving the "Check Cancellation Control System" so that data needed for the SF 1184, Unavailable Check Cancellation, can be automatically generated from the more reliable data contained on our automated Master Record System. Recognizing the need to use more reliable data in determining the amount of accounts receivable, in April, 1982 we did the first of our recurring periodic purges of suspended annuity overpayment cases to identify and eliminate cases that were no longer overpaid. The newly purchased debt collection software package will improve tracking of overpayments by having one centralized system for maintaining records of all outstanding overpayments. Requiring all overpayment and collection data to be processed through this one automated system will eliminate the types of problems identified in your report.

With regard to your estimate that OPM did not detect 5.9 million dollars in overpayments made during the three years ending December 31, 1980, we question the soundness of presenting a point estimate for the dollar value of overpayments that go undetected. Your estimate was based on our Quality Assurance Staff's sampling methodology which embodies attribute versus variable sampling. In order to project with validity the monetary terms of these samples, a wide dollar range is necessary due to the smaller sample size requirements of an attribute sample. To accurately present this data we feel a dollar range should be used.

Regardless of the true dollar amount, we recognize that a certain number of overpayments do go undetected. As a means of detecting overpayments, we conduct, on a regular basis, ongoing monitoring efforts such as the widow-remarriage survey and disability income survey to monitor the eligibility of individuals to receive benefits under our program.

In addition, in early 1982, an Internal Control Steering Committee was established in OPM. The Committee is chaired by the Deputy Associate Director for Compensation. One of the primary goals of the committee has been to oversee implementation of a series of internal control projects (many involving automated record matches) designed to enable OPM to monitor the accuracy of payments and the eligibility of individuals to receive them. Fifteen separate and distinct internal control projects are underway. Two examples of these efforts are the VA and SSA matches. Our Veterans Administration matching effort consisted of a match of 12,490 annuitant and survivor accounts in receipt of guaranteed minimum annuities with similar accounts of that agency. This match, which began in August, 1981, identified 102 accounts where annuitants were receiving VA benefits equal to or greater than the OPM benefits. Another match with VA records is planned for 1983. A similar match is planned with Social Security Administration records to compare OPM annuitant records with SSA records to determine if any annuitants are ineligible for a civil service minimum annuity due to receipt of SSA benefits. Several of the internal control initiatives have already resulted in the identification of hundreds of accounts, involving millions of dollars in overpayments, in which benefits being paid erroneously were stopped.

In addition, our Quality Assurance Division's reviews of more than 60 Compensation Group functions have, in the past, proven to be an effective safeguard to detect operating and system problems that cause overpayments. When problems are identified, recommendations for processing improvements are made. Sixty-three such recommendations have been implemented as of October, 1982. For example, in our most recent report issued on November 1, 1982, it was determined that student-child benefits were being overpaid due to a combination of automated system problems and lack of manual system controls. Two recommendations for corrective action were made and will be implemented. Top management and outside audit groups' reliance on the quality assurance report findings is a good indication of their effectiveness in surfacing and resolving problems.

Recommendation

OPM should develop an accounting system that enables collections to be promptly recorded and the Director, OPM, should supervise and monitor the work performance of annuitant service clerks to ensure that overpayments are properly identified and backlogs are reduced.

Response

The debt management system that we are implementing is designed to ensure that all collections are promptly processed into that system. With respect to the backlog of 5,000 survivor drop actions referenced in your report, it should be noted that at the time of the review by GAO, OPM was making a concerted effort to reduce other critical backlogs in the agency. For example, we concentrated resources on resolving the serious backlog of pending retirement annuity claims which existed in FY 81. In early FY 82, OPM shifted resources to the survivor drop function and has eliminated the reported backlog. In processing this backlog we found that the majority of these cases were not overpaid. Currently there are only 384 of these actions pending drop review. We consider this a normal working balance for this activity. We believe the Director, OPM, should provide overall direction to our retirement program operations; however, we do not agree that he should supervise and monitor the work of the annuitant services clerks. The work products of annuitant service clerks who perform this function are monitored closely by supervisory staff to ensure that established production and quality standards for such work are being met.

Recommendation

OPM should establish an appropriate allowance for uncollectible accounts.

Response

Beginning with fiscal year 1981, OPM established and continues to maintain, an allowance for uncollectible accounts.

MORE AGGRESSIVE APPROACHES WERE NEEDED TO COLLECT OVERPAYMENTS

Recommendation

The Director, OPM, should develop a debt collection system which would enable OPM to bill debtors promptly, identify all delinquent accounts, follow-up with the Department of the Treasury on outstanding SF 1184's, and charge interest on delinquent accounts.

Response

We agree that prompt billing action is essential for an effective collection process. We have been able to improve the timeliness of reclamation notices to the Treasury Department by realigning resources and by developing enhancements to the automated system which supports our SF 1184 reclamation process. For example, our latest internal audit found that SF 1184's for deceased annuitants were prepared within 30 days after we learned of the death (compared to the 193 day delay which occurred at the time that your audit was conducted). We have initiated additional changes which are intended to insure that the timing of all of our SF 1184 actions would parallel the time frames in the Federal Claims Collection Standards.

We have already initiated action to improve the timeliness of billing notices to debtors and to the Department of Labor. The problem with our current billing process has been that all notices to debtors had to be prepared manually. Our new software package will provide automatic generation of all initial and follow-up notices to our debtors. Automation of the billing process is the first application in what will be a comprehensive debt management system.

We have also established a special management team to coordinate development of the debt collection system and to implement organizational changes to optimize the efficiency and effectiveness of the collection process. This management team has already identified several methods to improve the timeliness of the billing process by eliminating duplication of effort and by structuring our workflow so that overpayment accounts will be entered into the automated system at the point of discovery of the overpayment. We are confident that the implementation of the automated billing system and related procedural changes will allow OPM to meet the timeliness elements of the Federal Claims Collection Standards.

The new debt collection system will also automatically generate follow-up notices to delinquent debtors within the time frames set forth in the Federal Claims Collection Standards. It is designed to automatically identify each delinquent account and to provide systematic aging schedules on all of our receivables. The debt collection system will provide a comprehensive "on-line" data base which will significantly reduce our reliance upon locating the physical case materials during the collection process. The same team is also investigating methods which other Federal agencies and private sector organizations use to locate and establish more direct contact with delinquent debtors. We are confident that the combination of computer generated follow-up notices and other methods of contacting delinquent debtors directly will improve the effectiveness of this facet of our collection process.

We have also upgraded our automated SF 1184 control system to increase our data entry capability by replacing an interactive update system with batch mode processing. This change has produced a dramatic improvement in the volume of computer transactions which can be entered into the SF 1184 control system (e.g., over 24 million dollars in recovery actions were posted to the system during FY 82, compared to approximately 8 million dollars during FY 81). Further enhancements to our SF 1184 control system are in development. These enhancements will eliminate the manual follow-up process, and increase the overall timeliness of the SF 1184 collection system. We are also working with the Treasury Department to investigate other methods to improve the SF 1184 system, such as eliminating data entry by transmitting SF 1184 and recredit data electronically.

The SF 1184 process will be incorporated into our new comprehensive debt collection system. The special management team is already concentrating on developing procedural and organizational changes required to restore our capability to conduct an aggressive follow-up with Treasury Department on outstanding SF 1184's, and to resolve the serious accounting discrepancies which were noted in the draft report.

While our current manual collection process does not provide an efficient method to calculate and apply interest, this capability is one of the central features of our new automated debt management system. The particular software package which we have selected was originally designed for banking institutions; therefore, it has the flexibility to charge variable interest rates and penalties for late payments.

As previously noted, implementation of our debt collection system will also give OPM an effective method to control referral of delinquent debtors to commercial credit agencies and to private collection agencies, should we decide that collection agencies would be cost beneficial in dealing with overpayment claims. A pre-condition for such referrals is that we must have the capability to provide prompt notice to the outside agency if the status of a delinquent debt changes and prompt response to inquiries from these agencies concerning the details of our collection account. The deficiencies in our manual collection system would prevent OPM from meeting these constraints. In addition, the fact that our software package is based upon the format used by regular banking institutions should facilitate the exchange of information between OPM and private sector credit or collection agencies.

Recommendation

OPM should conduct overpayment hearings when requested.

Response

We believe that OPM's decision not to hold a significant number of hearings on overpayment waiver requests during the time in question was an informed management decision, considering the overall needs and resources of the program. Retirement backlogs were mounting at a rapid rate and the need to move our data processing systems to reliable equipment became increasingly critical. Thus, resources were allocated to these most critical program needs. However, this is not to say that FY 80 expenditures and subsequent resources were not allocated to overpayment issues. Strengthening current operations (such as the Reconsideration Staff) and increasing the accuracy and timeliness of retirement actions have had a direct and demonstrable effect on avoidance of overpayments and the subsequent need for hearings. The allocation of scarce resources to strengthening operations that will reduce or eliminate overpayments, or facilitate their collection, is more cost effective than devoting resources to hearings concerning past overpayments.

It should also be noted that the total number of hearing requests is small and requests are received from all over the country, as well as overseas. Further, there are only limited numbers in any geographic area. Thus, it would be very expensive to travel to a given area for only one or two hearings. The expenses for hearings in some cases would exceed the amount to be collected on the claim.

We recognize the need to resolve this matter as soon as possible. Toward that end, we have asked our Office of the General Counsel to review our responsibilities in this area, so that we may fulfill them in the most cost-effective manner. In addition, we are presently reviewing the implications of the new Debt Collection Act and its impact on hearings in connection with collecting debts by administrative offset. We anticipate that these reviews will be completed shortly, at which time we intend to move quickly to eliminate the problem.

Thank you for the opportunity to review and comment on the draft report.

Sincerely yours,

James W. Morrison, Jr.
Associate Director
for Compensation

IMPROVEMENTS NEEDED IN INTERNAL CONTROLS AT THE NATIONAL FINANCE CENTER

The Honorable John R. Block
The Secretary of Agriculture

Dear Mr. Block:

This report summarizes the results of our review of internal controls over procurement-related payments made by the Department of Agriculture's National Finance Center (NFC). Our work revealed insufficient controls over the timing of payments resulting in an increase in the Government's borrowing costs of about $1.6 million annually. We also found procedural weaknesses which substantially increase the vulnerability of large payment systems to fraud and abuse. Specifically, we found that:

--The purchase order payment system needs stronger controls to minimize the risk of fraud, waste, and abuse.

--More extensive payment verification and reporting processes are needed to avoid improper payments in NFC's miscellaneous and gasoline credit card payments systems.

Our findings are presented in detail in enclosure I.

Our review included an examination of the general financial controls over NFC's miscellaneous payments, purchase order, and gasoline credit card systems. Together these systems paid out more than $818 million to vendors and individuals during fiscal 1981. Our estimate of additional Treasury borrowing costs is based on interest losses from early payments. We calculated these interest costs using various statistical and non-statistical estimating techniques. (See ~~attachment~~ enc. II for methodology.)

We visited selected headquarters offices of the Department and selected field stations in Arkansas, Louisiana, and Mississippi. We obtained comments from officials of the Treasury Department, the General Services Administration, and the Veterans Administration's Data Processing Center, Austin, Texas, regarding their practices in processing payments. We performed this review in accordance with our "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

At the conclusion of our review we met with officials at the National Finance Center and briefed them in detail on our findings and recommendations. By letter dated October 27, 1982, the Director, Office of Administrative Systems advised us of the corrective actions planned and taken on our findings and recommendations, and their comments are included in this report as appropriate. The actions taken or planned are generally responsive to our recommendations with one exception.

The action planned to improve internal controls in the miscellaneous payments system to establish an automated certifying officers file will not, in our opinion, provide sufficient controls to prevent ~~the payment of~~ improper or erroneous payments. Accordingly, we are recommending that you take action to assure that adequate systems of internal control are established at the National Finance Center.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations no later than 60 days after the date of the report, and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Copies of this report are being sent to the Director, Office of Management and Budget and to your Inspector General.

Sincerely yours,

W. D. Campbell
Acting Director

Enclosures - 2

GAO FINDINGS ON REVIEW OF ~~INTERNAL REVIEW OF~~ INTERNAL CONTROLS OVER COMMERCIAL PAYMENT SYSTEMS OPERATED BY THE DEPARTMENT'S NATIONAL FINANCE CENTER

The National Finance Center (NFC) in New Orleans, Louisiana, needs additional controls to reduce the impact on Government borrowing costs and to minimize the risk of fraud, waste, and abuse. Our review of NFC procedures for processing payments shows that:

--Controls are needed to properly time payments and evaluate prompt payment discounts.

--More extensive payment verification and reporting processes are needed to avoid improper payments in NFC's miscellaneous and gasoline credit card payments systems.

--The purchase order payment system needs stronger controls to minimize the risk of fraud, waste, and abuse.

As the last entity in the Department's commercial payments chain, NFC has the last opportunity to prevent improper payments through automated edits and manual audits. Agencies can assure themselves that the documents they submit to NFC for payment are correct and proper, but they cannot be certain that NFC pays and charges them for only those documents they authorize for payment. They are notified of NFC payments primarily through NFC monthly reports, which they receive about 3 weeks after month's end. As a result they can detect improper payments only after they are made.

NFC officials generally agreed with our findings and have begun or completed corrective action on all matters except for needed improvements in the miscellaneous payments system. These findings are discussed below.

CONTROLS NEEDED TO PROPERLY TIME PAYMENTS

Controls at NFC and throughout the Department of Agriculture (USDA) are inadequate to prevent payments from being made too early or late. As a result, nearly $1.6 million annually may be lost in interest from early payments, and more than $293,000 annually could have been lost from late payments if recently enacted late payment penalties had been required. Moreover, the purchase order system needs a mechanism to assure that only cost-effective discounts are taken and discounted payments are made neither early nor late. Our analysis of a test period revealed only about 3 percent of the discounts were appropriately taken and paid on time.

Because costs to finance disbursements are borne by the Treasury, agencies often do not consider them in making decisions. Some agencies, such as NFC, have given heavy emphasis to quick invoice and voucher payments, regardless of due dates. An earlier GAO report dealing with Government bill paying performance estimated at least $900 million annually could be saved if the Government paid all bills when due.[1] Although late payments are a less extensive problem for NFC than early payments, the 1982 Prompt Payment Act generally requires all agencies to pay interest on payments made more than 15 days late beginning in October 1982.

---

[1] "Actions to Improve Timeliness of Bill Paying By the Federal Government Could Save Hundreds of Millions of Dollars" (AFMD-82-1, October 9, 1982).

Cost of early and late payments is substantial

NFC's practice of paying invoices as soon as possible probably resulted in an interest loss to the Government of almost $1.6 million in fiscal 1981. Moreover, had the Prompt Payment Act been in effect during the period of our review, the ~~Department~~ USDA would have had to pay more than $293,000 in late payment penalties during the same period. The components of these amounts for the major systems examined are shown below.

Interest on NFC early and late fiscal 1981 payments through purchase order and miscellaneous payments systems

System	Estimated amt. paid early	Estimated interest on early payments	Estimated amt. paid late	Estimated interest on late payments a/
Purchase Orders	$ 97,489,308	$ 501,487	$ 20,035,779	$ 58,932
Misc. payments	389,093,538	1,102,756	151,575,966	234,191
Totals	$486,582,846	$1,604,243	$171,611,745	$293,123

a/ Applies to payments made more than 15 days late.

NFC strives to assure Agriculture obtains all available "prompt-payment discounts" offered by vendors; however, it has no mechanism to evaluate the economic value of discounts or to assure discounted payments were made neither early nor late. Our analysis of purchase order payments indicated some discounts should not have been taken and most discounted payments were paid before they were due.

For various reasons, including the short span of data retention on NFC's automated purchase order file, we limited our analysis to a 2-month period--October 15 through December 14, 1981 (see encl. II). During that period, NFC lost about $68,000 in prompt payment discounts, or about 27 percent, of the discount dollars offered. Our analysis of a convenience sample of 30 lost discounts revealed that 20 resulted from the absence of documents required from the various USDA units to legally authorize the payments to be made. NFC personnel attributed seven of the remainder to delays from computer technical problems, particularly downtime, but could not, or had insufficient data to explain the other three.

The data provided by NFC permitted us to analyze about $113,450, or 63 percent, of the discounts taken during the period. Of that amount

--$100,496 related to bills that were paid earlier than was necessary to obtain the discounts,

--$7,431 represented discounts which had expired and should not have been taken,

--$1,608 were worth less than the cost of money to the Treasury, and

--$3,915 were properly taken on time.

While expired and uneconomical discounts should not be taken, payments before discount expiration dates are a more serious problem. We estimate that such early payments eroded the value of discounts taken by more than $22,000, or about 20 percent.

Prior payment timing recommendations not implemented

Had NFC taken actions to implement payment timing recommendations and suggestions made as early as 8 years ago, we believe NFC could have saved the Treasury millions of dollars in interest costs. However, during our review, NFC reconsidered its position and began developing payment timing controls in anticipa-tion of this report and passage of teh Prompt Payment Act.

As early as 1974, before most NFC vendor payment systems were operational, a visiting Treasury official questioned NFC's practice of paying invoices upon receipt, rather than assuring payments were properly timed to reduce Government borrowing costs. Also, the Joint Financial Management Improvement Program's 1976 "Money Management Study" warned that:

> "The highly mechanized computer system at the National Finance Center (NFC) is designed to expedite current payments. Thus, interest costs associated with early payments may well increase in the future as the administrative time required to execute appropriate paperwork decreases due to use of sophisticated EDP techniques. This, of course, could be avoided by policy decisions which would call for changed scheduling of payments."

In 1978, a member of the Presidential Reorganization Project staff recommended that NFC properly time payments and estimated annual savings at more than $355,000. By July 1979, USDA had incorporated 1978 Treasury requirements into its own administrative regulations requiring that agency payment systems,"* * * be designed to provide for scheduling the issuance and mailing of checks for receipt by the payee as close as administratively possible to the due date * * *."

Instead of implementing this guidance, NFC adopted a goal of faster and faster payments. For example, NFC's first 5-year plan, issued in December 1979, set objectives of improving NFC's average processing (in-house) time by 6 percent in 1983 and 10 percent in 1985. Also, NFC offered much faster payments to oil companies for their cooperation in providing automated billings.

While NFC initially performed no formal study of the impact, it held in 1981 that scheduling payments for disbursement near their due dates would entail a major redesign of its payments systems, which was not planned for the immediate future. Moreover, such changes would require NFC to capture and track payment due dates, which is only done for the relatively few invoices which carry prompt payment discounts. Such positions are not uncommon in Federal agencies, as there are no incentives for a Federal agency to use its resources to bring about savings to the Treasury, notwithstanding the fact that the financial savings to the Government are substantial.

After we began our review, NFC requested GAO approval to implement new purchase order processing procedures that would likely result in even faster payments. GAO did not concur with NFC's request because it had plans to implement payment timing controls. NFC then developed an approach to implementing such controls, which avoided the need for a major system redesign. NFC officials expected to have such controls operating by October 1, 1982.

Also during our review, Congress passed the Prompt Payment Act (Public Law 97-177) which requires Federal agencies to pay interest on payments made more than 15 days late. Our earlier Governmentwide findings support NFC's contention that late payments primarily result from late receiving reports.[2] Such reports are necessary to demonstrate the Government received and accepted what was ordered before payment can be made. We believe that the Act, if properly implemented, will encourage correction of the receiving report problem and greatly reduce USDA's late payments. At the completion of our review, we briefed NFC officials on our findings and recommendations for payment timing. By letter dated October 27, 1982, the Director, Office of Administrative Systems advised us that payment targeting had been implemented and the invoices would be paid when due, including the targeting of discounted payments. Also, economical analyses of discounts offered will be made. That action, if properly implemented, will correct the deficiencies identified.

MISCELLANEOUS PAYMENTS SYSTEM HIGHLY VULNERABLE

NFC's largest administrative payment system, miscellaneous payments, lacks sufficient controls to prevent improper payments. In a live test, we obtained checks for 10 bogus vouchers through this system, which paid nearly $555 million to vendors, contractors, and individuals in fiscal 1981. With such large volumes, this system needs strong financial controls to prevent fraud and abuse.

---

[2] "The Federal Government's Bill Paying Performance Is Good But Should Be Better" (FGMSD-78-16, February 24, 1978).

Weak verification and reporting

NFC attempted to assure payments made through its miscellaneous payments system were proper by comparing certifying officers' signatures on sample vouchers to signature cards on file. Unlike the Treasury Department's 100 percent prepayment signature verification effort, NFC randomly checks only 1 percent of the signatures on vouchers less than $100,000 after payment. Such vouchers accounted for about $433 million, or 78 percent, of the domestic commercial payments made through this NFC system in fiscal 1981. (All vouchers valued at $100,000 or more are checked.) NFC voucher examiners have noted some cases where signatures on file did not match those on vouchers; however, we could not ascertain how they were handled because there was no documentation on what action, if any, was taken.

About the 20th of each month, agencies receive NFC reports detailing such payments for the previous month. The cutoff date for these reports extends to about the 5th of the current month. Therefore, erroneous, improper, or fraudulent payments would be reported to agencies between 2 and 6 weeks after they were made.

Moreover, the detailed reports on such transactions are not intended for routine internal controls. We contacted several field stations and the headquarters of the Forest Service regarding their procedures to prevent fraudulent payments through the miscellaneous payments system. Forest Service is the dominant user, accounting for 95 percent of the miscellaneous payments vouchers in our cash management sample. Forest Service regulations do not require and even discourage detailed examination of monthly "transaction registers," which show all payments made.

A 1979 internal NFC study recognized the need to guard against unauthorized use of miscellaneous payments, recommending that sampled vouchers be verified with agency representatives. While the procedure is provided for in NFC manuals, it was never implemented. A similar procedure is in effect for purchase orders, NFC's other large administrative payments system.

Special test demonstrates vulnerability

To illustrate the system's vulnerability, we conducted a special test by mailing 10 bogus vouchers to NFC for payment. All were promptly paid to our fictitious individuals and companies. Although NFC's automated system selected one voucher for manual post audit, timely followup action was not taken. Moreover, agency offices to which the vouchers were charged had not queried NFC as of 6 weeks after the payments were made.

During visits to Agriculture field sites, we easily obtained more than 100 blank vouchers. We entered payment code data on the vouchers that was readily available at the NFC and other Agriculture sites we visited, and created fictitious names for the preparers, auditors, and certifying officers. On several of the vouchers, signatures of the certifying officers were deliberately made illegible, with no printed or typed name. To minimize the impact on the Department's funding availability, we limited the number of vouchers to ten and the amounts to less than $200 each and spread the charges among field stations in Colorado and Nebraska. As explained above, the voucher amount (below $100,000) has no bearing on the probability for audit selection. Prior to conducting the test, we obtained the cooperation and endorsement of the Acting Assistant Secretary of Agriculture for Administration who was particularly interested in the test outcome in light of the recent concentration in improving internal controls in the Federal Government.

We mailed the vouchers in four groups from June 24 to July 2, 1982. NFC had processed nine for payment by July 15 and processed the other on July 20. One of the vouchers was statistically selected for post-payment audit. The voucher examiner could not match the certifying officer's signature to cards on file and referred it to NFC's certification branch for disposition. However, the branch had not acted by the time we disclosed the test to NFC officials approximately 3 weeks later.

On July 29, 1982, we met with NFC officials, advised them of the test and the results. At that time, we returned the checks for cancellation and credit to the appropriations. However, contrary to our instructions, which were consistent with Treasury regulations, NFC deposited the checks, along with other income and reimbursement items, rather than returning them to the Treasury for cancellation.

To determine whether the field offices would detect and report the improper charges, NFC officials held the checks and agreed not to compromise our test. Three payments appeared on reports field offices likely received on about July 20; the remainder appeared on reports probably received about August 20. However, as of September 8, NFC's inquiry management system showed no queries for the test documents. NFC officials concurred ample time had elapsed; hence, we concluded the test and notified the agency of the bogus transactions.

USDA proposed automated verification procedure

As an alternative to manually verifying all miscellaneous payments voucher signatures emanating from about 460 USDA certifying officers, the Director of USDA's Office of Administrative Systems suggested a secret identification number system which would substitute machine verification for the costly manual effort. Essentially, all certifying officers would be given numbers which they would inscribe on vouchers just prior to mailing them to NFC. NFC data entry clerks would key enter these numbers with other data transcribed from vouchers, and machine edits would confirm them during automated processing. We believe this approach can provide the needed verification if USDA implements procedures to assure the numbers are safeguarded, i.e., (1) limit access to files containing the numbers (2) change the numbers periodically, (3) require certifying officers to inscribe the numbers only on NFC payment copies of the vouchers, which they mail themselves, (4) limit number authorizations to applicable fund/unit codes, and (5) continue the existing limited signature verification procedure.

NFC did not implement the proposal, however. NFC proceeded with another automated verification method which, in our opinion, will provide little more protection than exists under the present system. The system's changes detailed in USDA's response to us dated October 27, 1982, will create an automated certifying officers' file. The certifying officers' names will be entered and verified along with the payment data. While the proposed change would reject transactions submitted by nonexistent certifying officers as used in our test, it would not detect obvious forgeries or valid but unauthorized fund codes.

We were told this decision was made because massive volume increases from a new system user would make both the secret number proposal and the 100 percent signature verification infeasible. Nonetheless, we believe volume increases worsen vulnerability to fraud and mandate stronger precautions.

NFC officials agreed to provide timely reports to agencies intended for their use in verifying payments made through the miscellaneous payments system. While improved reporting can aid in eventual detection of improper payments, up front controls are needed to prevent them. We believe all of the voucher signatures should be checked prior to payment as long as the manual system is operated.

Electronic payment system being implemented before risk analysis performed

USDA needs to perform an analysis to evaluate risks associated with electronically transmitting payment vouchers to NFC. Although one agency has begun millions of dollars in such transmissions and several agencies, including Forest Service, have plans to do so, we were told no risk analyses have been performed covering this issue by either USDA or NFC. In 1977, we reported that Government telecommunications systems were exceedingly vulnerable to various penetration techniques and that unauthorized information could easily be inserted into systems for fraudulent purposes.3/ While procedures used for existing transmissions may be sufficient to minimize errors, we believe the financial volumes mandate a thorough Departmentwide vulnerability assessment.

2/ Vulnerabilities of Telecommunications Systems to Unauthorized Use" (LCD-77-102, March 31, 1977)

PURCHASE ORDER SYSTEM NEEDS STRONGER CONTROLS TO PREVENT FRAUD AND ABUSE

USDA's purchase order payment system operated by NFC does not have adequate controls to prevent improper payments. NFC automated files contained more than $10 million in old, inactive purchase orders of which many were no longer valid obligations. Moreover, an absence of essential controls resulted in about 100 erroneous payments during a 2-month period. These conditions unnecessarily expose Federal funds to risk of loss through fraud or abuse and needlessly increase the Government's operating costs.

Invalid purchase order obligations should be cancelled

Old, inactive purchase order obligations provide the potential for fraud and abuse, overstate the dollar obligations of the Government, and waste system resources. NFC has approximately $10 million in old, inactive purchase order obligation records in the payment system master file. More than $2 million worth of these obligations either had receiving reports or required none, and were awaiting vendor bills. Our limited examination of selected records indicates many of the obligations for which there were no receiving reports are no longer valid and should be purged from the master file. Moreover, NFC programing officials told us that notwithstanding any internal control problems, invalid purchase order obligations waste ADP resources.

Upon our request, NFC generated data to summarize unliquidated purchase orders which is shown in the following schedule.

>

Summary of

Unliquidated Purchase Orders

Fiscal Year	Number of Purchase Order obligations	Total obligated balances
1976	7	559
1977	71	165,406
1978	702	754,388
1979	6,184	3,808,986
1980	8,980	5,342,723
TOTAL	15,944	$10,072,062

We examined a convenience sample of 15 old, inactive purchase orders to determine why, after considerable time, they were still outstanding. The selected obligations had been outstanding for a period 1 to 4 years and ranged from $2,500 to more than $46,000. Of the 15, 12 had at least partial receiving reports and were payable upon receipt of any invoices citing their numbers.

Discussions with agency procurement staff revealed that only 7 of the 15 are valid, outstanding purchase orders. The remainder are no longer invalid for various reason, ranging from payment through other NFC systems to agency or NFC mistakes.

For example, an item in our sample was one of many fiscal 1980 purchase orders made by a single office for an estimated number of subscriptions. Some of these subscriptions did not materialize, leaving this and several other orders open for more than $125,000. Such orders require no receiving reports and are highly susceptible to erroneous or otherwise improper payments. An agency procurement agent told us they recognized the obligations were no longer valid but they had no established procedure for removing them.

More than $2 million of these old inactive purchase orders are immediately payable upon invoicing and are particularly vulnerable to fraudulent or erroneous payments. Purchase orders become immediately payable up to the amounts indicated on receiving reports submitted by agencies. Furthermore, one type of purchase order commonly used by USDA requires no receiving reportsto become immediately payable. Any invoice showing a number for a valid purchase order, which is immediately payable for the amount of that invoice or more, will be automatically paid. As discussed below, this condition has resulted in numerous erroneous payments.

After we discussed this problem with NFC officials, NFC initiated action to eliminate open purchase orders outstanding since fiscal 1980 and earlier having no activity within the last 150 days. They accomplished this by sending a turnaround document to USDA agencies listing their old purchase orders outstanding, stating that those not marked for retention will be deleted within 90 days. NFC made similar efforts in 1980, covering purchase-orders dated through fiscal 1978, but they had no plans to do so again at the time of our review. After discussing our findings with NFC officials, by letter dated October 27, 1982, the Director, Office of Administrative Systems advised that prior fiscal year obligations will be validated by the agency every 6 months. Obligations not validated by the agency will be deleted from obligation records. This action, if properly implemented, will correct the deficiencies identified.

Erroneous payments demonstrate vulnerability and consume resources

NFC's purchase order processing controls do not include adequate procedures to ensure payments are being made to the proper vendor and under the correct purchse order number. This condition caused NFC to make about 100 erroneous payments during a 2-month period. While the number and dollar amount of these erroneous payments are small compared with NFC's annual volumes, we believe the problem reflects a major system control weakness.

To examine this problem, we used the same data NFC provided for our discount analysis covering the period October 15 through December 14, 1981 (see encl. 2). We limited our analysis to "standard" purchase orders which represent about 69 percent of the invoices paid during the period. The purchase order forms are designed for issuance to single vendors; hence, payments to more than one vendor under the same purchase order number are potentially erroneous.

The erroneous payments we found within this period were caused by incorrect purchase order numbers appearing on vendors' invoices and NFC data entry errors. We classified erroneous payments into three categories as shown below.

Type of error	Number of cases	Incorrect payment amount
Wrong vendor paid	11	$ 2,763
Vendor paid under wrong purchase order number	85	18,239
Other	5	361
	101	$21,363

We found six additional purchase order payments that could have been erroneous, but we were unable to verify them because of missing invoices.

The most common type of erroneous payment occurs when NFC pays one vendor's invoice under another vendor's purchase order number. This happens when an agency mistakenly issues a purchase order bearing a previously used number, the vendor transcribes the purchase order number incorrectly, or NFC erroneously keypunches the number upon data entry.

Less common erroneous payments payments may result in the wrong parties receiving payment checks. In some cases, NFC actually paid the wrong vendor because its data entry staff entered incorrect vendor names and addresses. In other cases, NFC paid non-vendors, i.e. the buyers rather than the sellers.

NFC's existing system cannot prevent such erroneous payments because it does not have a means to validate payee names on invoices against vendor names on purchase orders. This condition is a serious weakness in internal controls which could result in fraudulent payments. Anyone knowing a valid purchase order number which has at least some amount reported as "received" may submit an invoice and be paid under any name. This condition could also be used to circumvent spending limitations. For example vendors could be informally instructed to bill against purchase order numbers for the old, invalid obligations discussed above with little chance of detection.

While the errors are caused by vendors, agencies, and NFC, the latter is in the best position to detect and correct them before they result in erroneous payments. Moreover, NFC would directly benefit from fewer erroneous payments which are costly to resolve.

NFC officials told us that controls to prevent such payments could be incorporated in their planned vendor file being developed for other purposes. These controls would require unique vendor numbers be placed on all purchase orders and invoices. A match between numbers would be necessary before payment could be made. We believe such controls will reduce erroneous payments and the opportunity for fraud or abuse if implemented in the near future. Implementation was scheduled for February 1983.

GASOLINE CREDIT CARD PURCHASES

In fiscal 1981, USDA paid vendors more than $19 million for gasoline credit card purchases without adequate verification that these charges were proper. With about 50,000 USDA credit cards used to fuel more than 30,000 vehicles across the United States, strong controls are needed to reduce the risk of fraud and abuse. However, we found that agency field offices had no reasonable means to verify charges applied to their funds and were relying on NFC to detect improper charges through audit procedures not designed for that purpose. NFC officials agreed with our recommendation to implement an agency purchase verification procedure.

The highly automated, centralized nature of NFC's gasoline credit card payment system reduces NFC's ability to prevent improper charges against valid account numbers. Essentially, NFC receives statements directly from oil companies in both automated and manual forms, enters the data required for payment, processes it, and sends appropriate payment instructions to a Treasury disbursing center. During processing, the charges are subjected to various automated tests to assure they apply to valid USDA cards, are within "reasonable" limits, and are mathematically consistent. NFC clerks audit statistically selected charges after processing to primarily assure these are supported by complete, but not necessarily proper, charge tickets which agree with the statement amounts. Because of the number of possible drivers USDA-wide, NFC cannot verify signatures on purchase tickets. NFC makes no attempt to check license numbers appearing on the tickets to assure the products were purchased for a Government vehicle. However, our limited examination of purchase tickets revealed such an effort would be of very limited effectiveness, because stations frequently do not place a valid license number in the appropriate space.

Agency field office officials told us they were not attempting to verify gasoline charges appearing on NFC monthly reports, because the reports contained insufficient detail to make this feasible. Some told us they might notice large improper charges through gasoline consumption reports; however, they had no systematic means to detect gasoline purchases for use in personal automobiles or altered charge tickets. With 50,000 gasoline credit cards easily accessible to departmental employees and no spot checking or reconciliation of purchases, the potential for fraud and abuse is substantial.

While we found no cases of fraudulent charges other than for one card reported as stolen, USDA's Office of Inspector General (OIG) noted cases of misused cards in a 1980 report suggesting detailed gasoline credit card charge reports for agencies. NFC argued that its existing controls minimized the likelihood of credit card misuse and took no action on the OIG report. However, we believe that agency-level review of gasoline credit charges on a sampling basis is essential for this system. The General Services Administration, which pays gasoline credit card charges for other Federal agencies, implemented a sample verfication system for visibility purposes.

We recommended that NFC expand its audit procedures to include mailing selected charge tickets for field verification. This procedure would enable agencies to match paid charges to charge tickets turned in by drivers and/or vehicle use logs. NFC officials agreed and implemented the procedure and advised us by letter dated October 27, 1982.

CONCLUSIONS AND RECOMMENDATIONS

NFC needs controls to assure payments are scheduled for disbursement as close as administratively possible to their due dates. It further needs a mechanism to evaluate prompt payment discounts to assure only cost-effective discounts are taken. More extensive verifications and NFC reporting are needed to prevent improper payments through the miscellaneous payments and gasoline credit card purchases systems. The purchase order system needs procedures to assure invalid obligations are purged and controls to minimize erroneous payments.

By letter dated October 27, 1982, USDA generally concurred with our conclusions and have implemented, or are in the process of implementing, corrective measures on all except the need for improved verifications and an electronic transmission risk analysis for the miscellaneous payments system. USDA had proposed an automated alternative to our suggested full prepayment verification of miscellaneous payment vouchers, but NFC plans to actually implement measures which will not adequately protect the system from improper or erroneous payments. Moreover, no plans have been made for the electronic transmissions risk analysis despite likely substantial volume increases.

Internal controls for large financial systems, such as miscellaneous payments, are indispensable to sound management and should be implemented regardless of whether actual losses have occurred. This principle is implicit in recent actions taken by the Reagan Administration and in the Congress. In October 1981, the Office of Management and Budget issued Circular A-123 requiring all agencies to maintain adequate financial control systems and periodically assess their effectiveness. In addition, the Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255) requires a written statement by agency heads attesting to the effectiveness

Because of the problems identified in this report, we believe the Department needs to make substantial internal control improvements. These improvements will place the Department in a more favorable position to report on the adequacy of its internal controls as required by the recently enacted Federal Managers'

Financial Integrity Act (Public Law 97-255). This legislation requires the head of each executive agency to prepare:

--an annual statement of whether the agency's systems of internal accounting and administrative control fully comply with standards prescribed by the Comptroller General and

--a separate report on whether the agency's accounting systems conform to the principles, standards, and related requirements prescribed by the Comptroller General.

The first reports are to be prepared by December 31, 1983, and succeeding ones by December 31 of each succeeding year.

Accordingly, we recommend you require:

--the Director of NFC to implement either full verification of signatures on miscellaneous payment vouchers or the originally proposed automated alternative for using a secret identification numbersystem which would be confirmed during processing.

--the Department to perform an appropriate risk analysis covering Miscellaneous Payments transmissions before activity is substantially increased.

--the Department monitor the corrective actions being implemented and discussed in this report.

GAO METHODOLOGY USED IN EVALUATING

NFC PAYMENT TIMING AND DISCOUNT PERFORMANCE

Differences in the nature of NFC payment systems and NFC automated files required us to use different approaches to estimate dollars paid early and late and interest costs . We limited our analysis to NFC's largest systems which process commercial payments - miscellaneous payments and purchase orders.

MISCELLANEOUS PAYMENTS

Because NFC makes Miscellaneous Payments based on vouchers supported by information retained in agency offices, we had to obtain due date information from the latter. Accordingly, we developed a random sample of 381 fiscal 1981 vouchers and obtained due date information from the survey field offices requesting offices which submitted them to NFC. In cases where the agencies could not ascertain due dates using contracts or invoices, we applied the Treasury criteria (Treasury Fiscal Requirements Manual Volume I, Part 6, Section 8040) to establish due dates based on the dates invoices and goods or services were received. We compared the disbursement dates from NFC files with the due dates to establish days paid early or late and applied applicable Treasury interest rates to calculate imputed interest. Treasury promulgates these rates quarterly for agency use in charging interest on amounts owed to the Government and for evaluting prompt payment discounts. The 1982 Prompt Payment Act, passed after we had begun our analysis, requires the use of another rate for interest on late Government payments to vendors; however, we used the same rate for both early and late payments for consistency. We projected dollars paid early, on time and late and interest costs using generally accepted statistical methods.

PURCHASE ORDERS

NFC begins purging purchase orders from automated files to microfilm as early as one month after full payment; therefore, we could not draw a valid statistical sample projectable to a year's dollar volume. As the next best alternative, we used an NFC payment timing study covering the month of April 1982 which NFC officials claimed was representative of fiscal year 1982, but not of 1981, because their new computer brought about faster payments. NFC's only other such study covered October 1981 which they deemed unrepresentative because of year end closing efforts and computer reliability problems. From the more representative April 1982 study, we derived average days and dollars paid early and late, adjusted those amounts to remove the influence of the new computer, and applied the results to the applicable fiscal 1981 dollar volume and the average fiscal year 1981 Treasury interest rate.

DISCOUNT ANALYSIS

We limited our discount analysis to NFC's Purchase Order system. As in payment timing, our analysis was constrained by NFC automated file limitations. Accordingly, we requested NFC to provide tapes containing the longest available period of reasonably complete purchase order payment data.

For a variety of reasons, the best data they could furnish covered the two month period October 15, 1982 through December 14, 1982. While NFC programming officials initially told us processing problems and year end closing had little impact on payments made during this timeframe. Fiscal officials later disagreed attributing lost discounts to these and other problems. If the Fiscal officials are right, NFC may "normally" take a somewhat greater percentage of discounts than indicated by our analysis and may take fewer expired discounts, but they would also make even more discounted payments early, worsening imputed interest losses.

We analyzed the tapes using commercial data retrieval software. About .4 percent of the dollars paid during that period were missing from the data tapes, probably because of file purges and 20 "unreadable" records contained in the tapes. We were unable to evaluate about 37 percent of the discounts taken because (1) dates invoices were received were erroneous as provided by NFC or (2) discount period information was missing or conflicted with full payment due dates. Because the data may not be fully representative, we did not attempt to project our two month findings to a whole fiscal year.

○